**THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION.**

**If you are in any doubt as to the course of action to be taken, you should consult your stockbroker, bank manager, solicitor, accountant or other professional advisers immediately.**

**The Securities Commission Malaysia ("SC") has approved the Proposals (as defined herein). The approval of the SC should not be taken to indicate that the SC recommends the Proposals or assumes responsibility for the correctness of any statement made or opinion or report expressed in this Circular. The SC has not, in any way, considered the merits of the Proposals being tabled for Shareholders' approval.**

**The SC is not liable for any non-disclosure on the part of the issuer and takes no responsibility for the contents of this Circular, makes no representation as to its accuracy or completeness, and expressly disclaims any liability for any loss you may suffer arising from or in reliance upon the whole or any part of the contents of this Circular.**

**Bursa Malaysia Securities Berhad takes no responsibility for the contents of this Circular, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this Circular.**

# DAGANG NeXCHANGE BERHAD

(Company No. 10039-P)
(Incorporated in Malaysia under the Companies Act, 1965)

**CIRCULAR TO SHAREHOLDERS IN RELATION TO THE:**

**(A) PROPOSED RENOUNCEABLE RIGHTS ISSUE OF 465,146,809 NEW ORDINARY SHARES OF RM0.20 EACH IN DAGANG NeXCHANGE BERHAD ("DNeX" OR THE "COMPANY") ("SHARE(S)" OR "DNeX SHARE(S)") ("RIGHTS SHARE(S)") TOGETHER WITH 465,146,809 NEW FREE DETACHABLE WARRANTS ("WARRANT(S)") AT AN ISSUE PRICE OF RM0.21 PER RIGHTS SHARE ON THE BASIS OF THREE (3) RIGHTS SHARES TOGETHER WITH THREE (3) WARRANTS FOR EVERY FIVE (5) EXISTING DNeX SHARES HELD AS AT AN ENTITLEMENT DATE TO BE DETERMINED LATER ("PROPOSED RIGHTS ISSUE");**

**(B) PROPOSED SPECIAL ISSUE OF 130,000,000 SHARES ("SPECIAL ISSUE SHARE(S)") TOGETHER WITH 65,000,000 WARRANTS ON THE BASIS OF ONE (1) WARRANT FOR EVERY TWO (2) SPECIAL ISSUE SHARES AT AN ISSUE PRICE OF RM0.22 PER SPECIAL ISSUE SHARE ("PROPOSED SPECIAL ISSUE");**

**(C) PROPOSED ACQUISITIONS OF THE FOLLOWING ("PROPOSED ACQUISITIONS"):-**

- **(A) 500,000 ORDINARY SHARES OF RM1.00 EACH IN OGPC SDN BHD ("OGPC"), REPRESENTING 100% OF THE ISSUED AND PAID-UP SHARE CAPITAL OF OGPC FOR A PURCHASE CONSIDERATION OF RM164,636,700 TO BE SATISFIED BY PARTIAL CASH CONSIDERATION OF RM80,381,448 AND THE REMAINING RM84,255,252 VIA ISSUANCE OF 351,063,550 NEW DNeX SHARES WITH 175,531,775 WARRANTS AT AN ISSUE PRICE OF RM0.24 PER SHARE ON THE BASIS OF ONE (1) WARRANT FOR EVERY TWO (2) NEW DNeX SHARES ISSUED; AND**

- **(B) 520,000 ORDINARY SHARES OF RM1.00 EACH IN OGPC O&G SDN BHD ("OGPCOG"), REPRESENTING 52.0% OF THE ISSUED AND PAID-UP SHARE CAPITAL OF OGPCOG, A 48.0%-OWNED ASSOCIATE COMPANY OF OGPC, FOR A PURCHASE CONSIDERATION OF RM5,363,300 TO BE SATISFIED BY PARTIAL CASH CONSIDERATION OF RM2,618,552 AND THE REMAINING RM2,744,748 VIA ISSUANCE OF 11,436,450 NEW DNeX SHARES WITH 5,718,225 WARRANTS AT AN ISSUE PRICE OF RM0.24 PER SHARE ON THE BASIS OF ONE (1) WARRANT FOR EVERY TWO (2) NEW DNeX SHARES ISSUED,**

**(D) PROPOSED ESTABLISHMENT OF AN EMPLOYEE'S SHARE OPTION SCHEME ("ESOS") OF UP TO FIVE PERCENT (5%) OF THE ISSUED AND PAID-UP SHARE CAPITAL OF DNeX ("PROPOSED ESOS");**

**(COLLECTIVELY REFERRED TO AS THE "PROPOSALS");**

**AND**

**NOTICE OF EXTRAORDINARY GENERAL MEETING**

***Principal Adviser***

**AmInvestment Bank Berhad**
(Company No. 23742-V)
(A Participating Organisation of Bursa Malaysia Securities Berhad)

The Notice of Extraordinary General Meeting ("**EGM**") of the Company in respect of the Proposals and the Form of Proxy are enclosed in this Circular. The EGM will be held as follows:-

Date and time of the EGM : Wednesday, 27 January 2016 at 10.00 a.m., or at any adjournment thereof

Venue of the EGM : Ballroom 1, 1st Floor, Sime Darby Convention Centre, 1A, Jalan Bukit Kiara 1, 60000 Kuala Lumpur

If you decide to appoint a proxy or proxies for the EGM, you must complete, sign and return the enclosed Form of Proxy and lodge it with the Share Registrar of the Company, Mega Corporate Services Sdn Bhd at Level 15-2, Bangunan Faber Imperial Court, Jalan Sultan Ismail, 50250 Kuala Lumpur not later than the date and time indicated below. The completion and lodging of the Form of Proxy will not preclude you from attending and voting in person at the EGM should you subsequently wish to do so.

Last date and time for lodging the Form of Proxy : Tuesday, 26 January 2016 at 10.00 a.m.

This Circular is dated 12 January 2016

For the purpose of this Circular, except where the context otherwise requires, the following definitions shall apply throughout this Circular:

| | | |
|---|---|---|
| **5D-VWAMP** | : | Five (5)-day volume weighted average market price |
| **Act** | : | Companies Act, 1965 of Malaysia |
| **AmBank** | : | AmBank (M) Berhad (Company No. 8515-D) |
| **AmInvestment Bank** | : | AmInvestment Bank Berhad (Company No. 23742-V) |
| **Announcement** | : | The announcement dated 5 March 2015 in relation to the Proposals |
| **BNM** | : | Bank Negara Malaysia |
| **Board** | : | Board of Directors of DNeX |
| **Bursa Depository** | : | Bursa Malaysia Depository Sdn Bhd (Company No. 165570-W) |
| **Bursa Securities** | : | Bursa Malaysia Securities Berhad (Company No. 635998-W) |
| **By-Laws** | : | The terms and conditions governing the Proposed ESOS as may be amended, modified and/or supplemented from time to time and to be adopted, the draft of which is set out in Appendix VIII of this Circular |
| **Cash Consideration** | : | Cash payment of RM83,000,000 as partial satisfaction of the OGPC Group Purchase Consideration pursuant to the Proposed Acquisitions |
| **CCM** | : | Companies Commission of Malaysia |
| **CDS** | : | Central Depository System governed under the Central Depositories Act |
| **Censof** | : | Censof Holdings Berhad (Company No. 828269-A) |
| **Censof Group** | : | Collectively, Censof and its subsidiaries |
| **Central Depositories Act** | : | Securities Industry (Central Depositories) Act, 1991 |
| **Circular** | : | This circular to Shareholders dated 12 January 2016 |
| **CMSA** | : | Capital Markets and Services Act, 2007 |
| **Completion Date** | : | Has the meaning assigned to in Section 4(d) of Appendix VI of this Circular |
| **Conditions Precedent** | : | The conditions precedent stipulated in the SSA dated 18 June 2014, as set out in Section 2 of Appendix VI of this Circular |
| **Consideration Share(s)** | : | 362,500,000 new DNeX Shares at an issue price of RM0.24 per DNeX Share to be issued as partial satisfaction of the OGPC Group Purchase Consideration pursuant to the Proposed Acquisitions |
| **Date of Expiry** | : | The last day of an Option Period |
| **Deed Poll** | : | Deed poll governing the Warrants to be executed by the Company |
| **Director(s)** | : | Has the meaning assigned to it in Section 2(1) of the CMSA |

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| **DNeX** or the **Company** | : | Dagang NeXchange Berhad (10039-P) |
| **DNeX Group** or the **Group** | : | Collectively, DNeX and its subsidiaries |
| **DNeX Share(s)** or **Share(s)** | : | Ordinary share(s) of RM0.20 each in DNeX |
| **Effective Date** | : | The date of commencement of the Proposed ESOS, being the date of full compliance with all of the relevant requirements under the By-Laws and Listing Requirements |
| **EGM** | : | Extraordinary General Meeting |
| **Eligible Person(s)** | : | Executive Director(s) and employee(s) of DNeX Group (excluding subsidiaries which are dormant) who meet the eligibility criteria to participate in the Proposed ESOS as set out in Section 2.4.1(c) of this Circular including the Executive Director(s) and employee(s) of the OGPC Group which will form part of DNeX Group upon completion of the Proposed Acquisitions |
| **Entitled Shareholders** | : | Shareholders whose names appear in the Record of Depositors of the Company on the Entitlement Date |
| **Entitlement Date** | : | A date to be determined and announced by the Board on which the names of the Entitled Shareholders of DNeX must appear in the Record of Depositors of the Company as at the close of business on that date in order to be entitled to the Proposed Rights Issue |
| **EPS** | : | Earnings per share |
| **Equity Guidelines** | : | Equity Guidelines issued by the SC |
| **ESOS** | : | Employee's share option scheme |
| **ESOS Committee** | : | The committee comprising such persons as may be duly appointed and authorised by the Board to administer the Proposed ESOS in accordance with the By-Laws |
| **ESOS Option(s)** | : | The right(s) of a Grantee to subscribe for new Shares at the ESOS Subscription Price and where the context so requires, means any part of the ESOS Option as shall remain unexercised |
| **ESOS Subscription Price** | : | The price at which the Grantee shall be entitled to subscribe for a new Share as set out in Section 3.3 of this Circular |
| **Executive Director** | : | A natural person who is a Director in a full-time executive capacity who is involved in the day-to-day management and on the payroll of any company within DNeX Group |
| **FMC** | : | FMC Technologies Inc |
| **FMC Group** | : | Means the following companies within the FMC group of companies that the OGPC Group has dealing with as follows:-<br>• FMC Technologies Inc;<br>• FMC Technologies Singapore Pte Ltd; and<br>• FMC Technologies SA. |
| **FPE** | : | Financial period ended/ending 30 June, as the case may be |

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| **Full Subscription Level** | : | Has the meaning assigned to it in Section 2.1 of this Circular |
| **FYE** | : | Financial year ended/ending 31 December, as the case may be |
| **GBP** | : | British Pound Sterling |
| **GDP** | : | Gross domestic product |
| **Government** | : | Government of Malaysia |
| **Grantees** | : | Selected Persons who have accepted the Offers in accordance with the provisions of the By-Laws |
| **GST** | : | Goods and Services Tax |
| **ICT** | : | Information and communication technology |
| **IFRSs** | : | International Financial Reporting Standards |
| **IMRR** | : | Independent market research report titled "Strategic Analysis of the Oil Field Services and Equipment Industry In Malaysia" prepared by Protégé |
| **Initial Announcement** | : | The announcement dated 18 June 2014 in relation to the Initial Proposals |
| **Initial Proposals** | : | Collectively, the Proposed Right Issue, Initial Proposed Special Issue, Initial Proposed Acquisitions and Proposed ESOS |
| **Initial Proposed Acquisitions** | : | Proposed acquisitions of 500,000 OGPC Shares, representing 100% of the issued and paid-up share capital of OGPC (which owns 48.0% equity interest in OGPCOG) and 520,000 OGPCOG Shares representing 52.0% of the issued and paid-up share capital of OGPCOG for RM203,000,000 which was to be satisfied by partial cash consideration of RM100,000,000 and the remaining RM103,000,000 via issuance of 396,153,846 new DNeX Shares with 198,076,923 Warrants at an issue price of RM0.26 per Share on the basis of one (1) Warrant for every two (2) new DNeX Shares issued |
| **Initial Proposed Special Issue** | : | Proposed special issue of 50,000,000 Special Issue Shares together with 25,000,000 Warrants on the basis of one (1) Warrant for every two (2) Special Issue Shares at an issue price of RM0.22 per Special Issue Share |
| **Interested Directors** | : | Has the meaning assigned to it in Section 15.2 of this Circular |
| **km** | : | Kilometre |
| **Listing Requirements** | : | Main Market Listing Requirements of Bursa Securities |
| **LPD** | : | 14 December 2015, being the latest practicable date prior to the printing of this Circular |
| **Management Services Agreements** | : | Collectively, the management services agreements dated 15 November 2014 entered into between DNeX, OGPC and each of the Vendors respectively |
| **Market Day(s)** | : | Any day between Monday and Friday (both days inclusive) which is a trading day on Bursa Securities |

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| **MFRSs** | : | Malaysian Financial Reporting Standards |
| **MFRS 2** | : | Malaysian Financial Reporting Standard 2 on share-based payment as issued by the Malaysian Accounting Standard Board |
| **MRO** | : | Maintenance, repair and operations or maintenance, repair and overhaul |
| **MW** | : | Megawatt, a measure that indicates the installed capacity of a powerplant. One megawatt is equal to 1,000,000 watts |
| **NA** | : | Net assets |
| **N/A** | : | Not applicable |
| **NBV** | : | Net book value |
| **Offer(s)** | : | Offer(s) of ESOS Options made by the ESOS Committee to the Selected Persons |
| **Official List** | : | A list specifying all securities listed on the Main Market of Bursa Securities |
| **OFSE** | : | Oil field services and equipment |
| **OGPC** | : | OGPC Sdn Bhd (Company No. 300347-H) |
| **OGPC Group** | : | Collectively, OGPC and OGPCOG |
| **OGPC Group Comparable Companies** | : | Comparable companies to the OGPC Group listed on the Main Market of Bursa Securities |
| **OGPC Group Purchase Consideration** | : | The total purchase consideration of RM170,000,000 for the Proposed Acquisitions which shall be satisfied by a combination of the Cash Consideration and issuance of the Consideration Shares |
| **OGPC Purchase Consideration** | : | The purchase consideration of RM164,636,700 for the Proposed OGPC Acquisition which shall be satisfied by partial cash consideration of RM80,381,448 and the remaining RM84,255,252 via issuance of 351,063,550 Consideration Shares with 175,531,775 Warrants |
| **OGPC Share(s)** | : | Ordinary share(s) of RM1.00 each in OGPC |
| **OGPCOG** | : | OGPC O&G Sdn Bhd (Company No. 805887-X) |
| **OGPCOG Purchase Consideration** | : | The purchase consideration of RM5,363,300 for the Proposed OGPCOG Acquisition which shall be satisfied by partial cash consideration of RM2,618,552 and the remaining RM2,744,748 via issuance of 11,436,450 Consideration Shares with 5,718,225 Warrants |
| **OGPCOG Share(s)** | : | Ordinary share(s) of RM1.00 each in OGPCOG |
| **Option Period** | : | The period during which an ESOS Option may be exercised as may be specified in the Offer(s) |
| **O&G** | : | Oil and gas |

| | | |
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| **Packager** | : | A packager collaborates with in-house and principals' product engineering team as well as other external consultants/fabricators during the initial design stage to meet customers' requirements prior to installation and commissioning |
| **PBR** | : | Price-to-book ratio |
| **PER(s)** | : | Price-to-earnings ratio(s) |
| **Persons Connected** | : | Has the meaning assigned to it in Paragraph 1.01 of the Listing Requirements |
| **Proposals** | : | Collectively, the Proposed Rights Issue, Proposed Special Issue, Proposed Acquisitions and Proposed ESOS |
| **Proposed Acquisitions** | : | Collectively, Proposed OGPC Acquisition and Proposed OGPCOG Acquisition |
| **Proposed ESOS** | : | Proposed establishment of an ESOS of up to five percent (5%) of the issued and paid-up share capital of the Company (excluding treasury shares, if any) at any point in time during the duration of the Proposed ESOS |
| **Proposed OGPC Acquisition** | : | Proposed acquisition of 500,000 OGPC Shares, representing 100% of the issued and paid-up share capital of OGPC for the OGPC Purchase Consideration |
| **Proposed OGPCOG Acquisition** | : | Proposed acquisition of 520,000 OGPCOG Shares, representing 52.0% of the issued and paid-up share capital of OGPCOG, a 48.0%-owned associate company of OGPC, for the OGPCOG Purchase Consideration |
| **Proposed Rights Issue** | : | Proposed renounceable rights issue of 465,146,809 Rights Shares together with 465,146,809 Warrants on the basis of three (3) Rights Shares together with three (3) Warrants for every five (5) existing DNeX Shares held as at the Entitlement Date |
| **Proposed Special Issue** | : | Proposed Special Issue of 130,000,000 Special Issue Shares together with 65,000,000 Warrants on the basis of one (1) Warrant for every two (2) Special Issue Shares |
| **Protégé** | : | Protégé Associates Sdn Bhd, being the independent market researcher to DNeX for the Proposed Acquisitions |
| **Record of Depositors** | : | A record of securities holders established and maintained by Bursa Depository under the Rules of Bursa Depository |
| **Rights Share(s)** | : | New DNeX Share(s) to be allotted and issued pursuant to the Proposed Rights Issue |
| **RM** and **sen** | : | Ringgit Malaysia and sen respectively |
| **Rules of Bursa Depository** | : | The rules of Bursa Depository as issued pursuant to the Central Depositories Act |
| **Sale Shares** | : | The 500,000 OGPC Shares, representing the entire issued and paid-up share capital of OGPC and 520,000 OGPCOG Shares, representing 52.0% of the issued and paid-up share capital of OGPCOG |

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| **SC** | : | Securities Commission Malaysia |
| **Selected Person(s)** | : | Eligible Person(s) to whom an Offer is/are being made pursuant to the By-Laws |
| **Shareholders** | : | Shareholders of DNeX |
| **Significant Change in Business Direction** | : | Significant change in the business direction or policy under Section 212 of the CMSA |
| **Special Issue Investors** | : | Subscribers of the Special Issue Shares |
| **Special Issue Share(s)** | : | New DNeX Share(s) to be issued pursuant to the Proposed Special Issue |
| **SPX Group** | : | Means SPX group of companies (previously known as Sealed Power Corporation) comprising the following companies within the SPX brand that the OGPC Group has dealing with as follows:-<br>• Clyde Union Inc;<br>• Clyde Union S.A.S;<br>• Clyde Union DB Ltd;<br>• Clyde Union Canada Limited;<br>• Clyde Union Ltd; and<br>• Clyde Union South East Asia Pte Ltd |
| **SSA** | : | Conditional share sale agreement dated 18 June 2014 entered into between DNeX and the Vendors in relation to the Proposed Acquisitions |
| **Substantial Shareholder(s)** | : | Has the meaning assigned to it in Section 69(d)(1) of the Act |
| **Supplemental SSA** | : | Supplemental conditional share sale agreement dated 5 March 2015 entered into between DNeX and the Vendors to vary such terms as stipulated in the SSA |
| **TERP** | : | Theoretical ex-rights price |
| **Unconditional Date** | : | Has the meaning ascribed to it in Section 2 of Appendix VI of this Circular |
| **Undertaking** | : | The irrevocable written undertaking from the Substantial Shareholder of DNeX, namely Censof, to subscribe in full for its entitlement under the Proposed Rights Issue at the Entitlement Date |
| **UK** | : | United Kingdom |
| **USA** | : | United States of America |
| **USD** | : | United States Dollar |
| **Vendors** | : | Collectively, Azman bin Karim, Abdul Manaf bin Shariff, and Khoo Kok Seng |
| **Warrant(s)** | : | Free detachable warrant(s) to be allotted and issued pursuant to the Proposed Rights Issue, Proposed Special Issue and Proposed Acquisitions and to be constituted under the Deed Poll |

Unless specifically referred to, words denoting the singular shall include the plural and vice versa and words denoting the masculine gender shall include the feminine and/or neuter genders and vice versa. References to persons shall include corporations.

All references to "you" in this Circular are to the Shareholders.

Any reference to any enactment in this Circular is a reference to that enactment as for the time being amended or re-enacted.

Any discrepancies in the amounts and percentage figures included herein have been subjected to rounding adjustments.

Any reference to time of day in this Circular is a reference to Malaysian time, unless otherwise stated.

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**LETTER TO THE SHAREHOLDERS OF DNeX IN RELATION TO THE PROPOSALS CONTAINING:-**

APPENDICES

**DAGANG NeXCHANGE BERHAD**
(Company No. 10039-P)
(Incorporated in Malaysia under the Companies Act, 1965)

**Registered Office:**
Tower 3, Avenue 5,
The Horizon, Bangsar South,
No. 8 Jalan Kerinchi,
59200 Kuala Lumpur.

12 January 2016

**Board:**

| | |
|---|---|
| Tan Sri Abd Rahman bin Mamat | *(Chairman/Independent Non-Executive Director)* |
| Datuk Samsul bin Husin | *(Executive Deputy Chairman)* |
| Zainal 'Abidin bin Abd Jalil | *(Group Managing Director)* |
| Dato' Wong Kam Yin | *(Executive Director)* |
| Ang Hsin Hsien | *(Non-Independent Non-Executive Director)* |
| Rosli bin Abdullah | *(Senior Independent Non-Executive Director)* |
| Norlila binti Hassan | *(Independent Non-Executive Director)* |
| Dato' Arif Ambrose Leonard Ng | *(Independent Non-Executive Director)* |
| Satria bin Ahmad | *(Independent Non-Executive Director)* |

**To: Our Shareholders**

Dear Sir/Madam,

**(I) PROPOSED RIGHTS ISSUE;**
**(II) PROPOSED SPECIAL ISSUE;**
**(III) PROPOSED ACQUISITIONS; AND**
**(IV) PROPOSED ESOS.**

**(COLLECTIVELY REFERRED TO AS THE "PROPOSALS")**

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## 1. INTRODUCTION

On 18 June 2014, AmInvestment Bank had, on behalf of the Board, made the Initial Announcement as the following:-

(a) proposed renounceable rights issue of 465,146,809 Rights Shares together with 465,146,809 Warrants at an issue price of RM0.21 per Rights Share on the basis of three (3) Rights Shares together with three (3) Warrants for every five (5) existing DNeX Shares held as at the Entitlement Date;

(b) proposed special issue of 50,000,000 Special Issue Shares together with 25,000,000 Warrants on the basis of one (1) Warrant for every two (2) Special Issue Shares at an issue price of RM0.22 per Special Issue Share;

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(c) DNeX had, on 18 June 2014, entered into the SSA with the Vendors, in relation to the proposed acquisitions of the following:-

  (i) 500,000 OGPC Shares, representing 100% of the issued and paid-up share capital of OGPC for a purchase consideration of RM196,594,821 to be satisfied by partial cash consideration of RM96,844,740 and the remaining RM99,750,081 via issuance of 383,654,158 new DNeX Shares with 191,827,079 Warrants at an issue price of RM0.26 per Share on the basis of one (1) Warrant for every two (2) new DNeX Shares issued; and

  (ii) 520,000 OGPCOG Shares, representing 52.0% of the issued and paid-up share capital of OGPCOG, a 48.0%-owned associate company of OGPC, for a purchase consideration of RM6,405,179 to be satisfied by partial cash consideration of RM3,155,260 and the remaining RM3,249,919 via issuance of 12,499,688 new DNeX Shares with 6,249,844 Warrants at an issue price of RM0.26 per Share on the basis of one (1) Warrant for every two (2) new DNeX Shares issued.

  The total purchase consideration for the OGPC Group was RM203,000,000, which was to be satisfied by partial cash consideration of RM100,000,000 and the remaining RM103,000,000 via issuance of 396,153,846 new DNeX Shares with 198,076,923 Warrants at an issue price of RM0.26 per DNeX Share on the basis of one (1) Warrant for every two (2) new DNeX Shares issued; and

(d) proposed establishment of an ESOS of up to five percent (5%) of the issued and paid-up share capital of DNeX.

On 18 November 2014, AmInvestment Bank had, on behalf of the Board, announced that DNeX and OGPC had entered into the Management Services Agreements with each of the Vendors for the appointment of Azman bin Karim as the Managing Director of OGPC and Abdul Manaf bin Shariff and Khoo Kok Seng as the Executive Directors of OGPC for a fixed duration of two (2) years commencing from the completion date of the SSA and such appointment is renewable on agreement by all parties. In addition, three (3) years moratorium is imposed on the transfer of the Consideration Shares from the completion date of the SSA whereby the Vendors cannot sell, transfer, assign, mortgage, pledge or otherwise encumber, dispose of or deal with or part with the registered or beneficial ownership of any of their portions of the Consideration Shares without the prior consent in writing from DNeX.

On 16 February 2015, AmInvestment Bank had, on behalf of the Board, announced that DNeX and the Vendors had, vide a letter dated 16 February 2015, mutually agreed to extend the conditional period of the SSA for a further period of six (6) months commencing from 17 February 2015 and ending 17 August 2015 to enable DNeX and the Vendors to meet the Conditions Precedent stated in the SSA.

Subsequently, on 5 March 2015, AmInvestment Bank had, on behalf of the Board, announced that DNeX had entered into the Supplemental SSA with the Vendors to vary such terms as stipulated in the SSA, whereby DNeX and the Vendors had revised the terms of the Initial Proposed Special Issue and Initial Proposed Acquisitions in relation to the Initial Proposals as announced on 18 June 2014. All other components of the Initial Proposals namely, Proposed Rights Issue and Proposed ESOS remain unchanged. The revisions made to the Initial Proposals in the Announcement are as set out below:-

(a) proposed special issue of 130,000,000 Special Issue Shares together with 65,000,000 Warrants on the basis of one (1) Warrant for every two (2) Special Issue Shares at an issue price of RM0.22 per Special Issue Share; and

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(b) proposed acquisitions of the following:-

(i) 500,000 OGPC Shares, representing 100% of the issued and paid-up share capital of OGPC for a purchase consideration of RM164,636,700 to be satisfied by partial cash consideration of RM80,381,448 and the remaining RM84,255,252 via issuance of 351,063,550 Consideration Shares with 175,531,775 Warrants at an issue price of RM0.24 per Consideration Share on the basis of one (1) Warrant for every two (2) Consideration Shares issued; and

(ii) 520,000 OGPCOG Shares, representing 52.0% of the issued and paid-up share capital of OGPCOG, a 48.0%-owned associate company of OGPC, for a purchase consideration of RM5,363,300 to be satisfied by partial cash consideration of RM2,618,552 and the remaining RM2,744,748 via issuance of 11,436,450 Consideration Shares with 5,718,225 Warrants at an issue price of RM0.24 per Consideration Share on the basis of one (1) Warrant for every two (2) Consideration Shares issued.

The OGPC Group Purchase Consideration is RM170,000,000 which shall be satisfied by partial cash consideration of RM83,000,000 and the remaining RM87,000,000 via issuance of 362,500,000 Consideration Shares with 181,250,000 Warrants at an issue price of RM0.24 per Consideration Share on the basis of one (1) Warrant for every two (2) Consideration Shares issued.

The variation to the terms of the SSA, in particular the revision made to the OGPC Group Purchase Consideration from RM203,000,000 to RM170,000,000 was agreed between DNeX and the Vendors in view of the decline in global oil prices since the signing of the SSA on 18 June 2014. For information purpose, during the period from the signing date of the SSA to the signing date of the Supplemental SSA, the benchmark Dated Brent crude oil price reached its highest level at USD115 per barrel on 19 June 2014 as compared to highest level reached in 2015 at USD62 per barrel on 27 February 2015.

The revisions that were made to the terms of the Initial Proposals, in particular the revision made to the Proposed Special Issue from the issuance of 50,000,000 Special Issue Shares together with 25,000,000 Warrants to 130,000,000 Special Issue Shares together with 65,000,000 Warrants, will be issued to certain selected Bumiputera investors, to enable DNeX to meet the Bumiputera's equity condition of 12.5% imposed by the relevant authorities.

On 13 August 2015, AmInvestment Bank had, on behalf of the Board, announced that DNeX and the Vendors had, vide a letter dated 13 August 2015, mutually agreed to extend the conditional period of the SSA, as amended by the Supplemental SSA, for a further period of six (6) months commencing from 17 August 2015 and ending 17 February 2016 to enable DNeX and the Vendors to meet the Conditions Precedent stated in the SSA.

On 21 October 2015, AmInvestment Bank had, on behalf of the Board, announced that the SC had, vide its letter dated 20 October 2015, granted its approval for the following:-

(a) approval for the Proposed Acquisitions which result in a Significant Change in Business Direction of DNeX under Section 212 of the CMSA;

(b) approval for the issuance of Rights Shares, Special Issue Shares, Consideration Shares, ESOS Options and new Warrants pursuant to the Proposed Rights Issue, Proposed Special Issue and Proposed Acquisitions, which are undertaken by DNeX as part of the Significant Change in Business Direction of DNeX; and

(c) clearance for the issuance of this Circular.

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The approval of the SC is subject to the conditions as set out in Section 13(a) of this Circular.

On 25 November 2015, AmInvestment Bank had, on behalf of the Board, announced that Bursa Securities had, vide its letter dated 24 November 2015, granted its approval for the following:-

(a) admission of Warrants to the Official List and the listing of and quotation for 711,396,809 Warrants to be issued pursuant to the Proposed Rights Issue, Proposed Special Issue and Proposed Acquisitions;

(b) listing of and quotation for 465,146,809 new Shares to be issued pursuant to the Proposed Rights Issue;

(c) listing of and quotation for 130,000,000 new Shares to be issued pursuant to the Proposed Special Issue;

(d) listing of and quotation for 362,500,000 new Shares to be issued pursuant to the Proposed Acquisitions;

(e) listing of and quotation for up to 711,396,809 new Shares to be issued pursuant to the exercise of the Warrants; and

(f) listing of and quotation for such number of additional new DNeX Shares, representing up to five percent (5%) of the issued and paid-up share capital of the Company (excluding treasury shares, if any) at any point in time pursuant to the exercise of ESOS Options under the Proposed ESOS,

on the Main Market of Bursa Securities.

The approval of Bursa Securities is subject to the conditions as set out in Section 13(b) of this Circular.

**THE PURPOSE OF THIS CIRCULAR IS TO PROVIDE YOU WITH THE RELEVANT INFORMATION ON THE PROPOSALS AND TO SET OUT THE VIEW AND RECOMMENDATION OF THE BOARD AS WELL AS TO SEEK YOUR APPROVAL FOR THE RESOLUTIONS PERTAINING TO THE PROPOSALS TO BE TABLED AT THE FORTHCOMING EGM. THE NOTICE OF EGM AND FORM OF PROXY ARE ENCLOSED IN THIS CIRCULAR.**

**YOU ARE ADVISED TO READ AND CONSIDER CAREFULLY THE CONTENTS OF THIS CIRCULAR TOGETHER WITH THE APPENDICES BEFORE VOTING ON THE RESOLUTIONS TO GIVE EFFECT TO THE PROPOSALS AT THE FORTHCOMING EGM.**

## 2. DETAILS OF THE PROPOSALS

### 2.1 Proposed Rights Issue

The Proposed Rights Issue entails the issuance of 465,146,809 Rights Shares together with 465,146,809 Warrants at an issue price of RM0.21 per Rights Share and is to be implemented on a renounceable basis of three (3) Rights Shares together with three (3) Warrants for every five (5) existing DNeX Shares held as at the close of business on the Entitlement Date. The Rights Shares and Warrants will be offered to the Entitled Shareholders on the Entitlement Date.

As at the LPD and based on the renounceable basis of three (3) Rights Shares together with three (3) Warrants for every five (5) existing DNeX Shares, the total number of Right Shares to be issued shall be 465,146,809 Rights Shares together with 465,146,809 Warrants ("**Full Subscription Level**"). As at the LPD, DNeX does not have any outstanding preference shares or other convertible securities.

The Proposed Rights Issue is renounceable in full or in part. Accordingly, the Entitled Shareholders can subscribe for and/or renounce their entitlements to the Rights Shares in full or in part. Should the Entitled Shareholders renounce all of their Rights Shares entitlements under the Proposed Rights Issue, they shall be deemed to have relinquished the accompanying entitlements to the Warrants to be issued together with the Rights Shares. However, if the Entitled Shareholders accept only part of their Rights Shares entitlements under the Proposed Rights Issue, they shall be entitled to the Warrants in the proportion of their acceptance of the Rights Shares entitlements. For the avoidance of doubt, the Rights Shares and the Warrants are not separately renounceable.

The Warrants are attached to the Rights Shares without any cost and will be issued only to the Entitled Shareholders and/or renouncee(s) who subscribe for the Rights Shares. Each Warrant will entitle its holder to subscribe for one (1) new DNeX Share at an exercise price of RM0.50 per Warrant. The Warrants will be immediately detached from the Rights Shares upon issuance and will be separately traded on the Main Market of Bursa Securities.

The Warrants will be issued in the registered form and constituted by a Deed Poll to be executed by the Company. The Warrants to be issued pursuant to the Proposed Rights Issue are of the same class of Warrants to be issued pursuant to the Proposed Special Issue and Proposed Acquisitions. The indicative salient terms of the Warrants are set out in Section 5 of this Circular.

The issuance of the Warrants is expected to enhance the attractiveness of the Proposed Rights Issue as well as to enable DNeX to raise further proceeds as and when any of the Warrants are exercised in the future.

Any Rights Shares which are not taken up or validly taken up shall be made available for excess Rights Shares applications by other Entitled Shareholders and/or their renouncee(s). It is the intention of the Board to allocate the excess Rights Shares, if any, in a fair and equitable manner on a basis to be determined later by the Board and announced later.

Fractional entitlements under the Proposed Rights Issue, if any, will be disregarded and dealt with in such manner as the Board in its absolute discretion may deem fit and in the Company's best interest.

### 2.1.1 Minimum subscription level, undertaking and underwriting arrangement

There is no minimum subscription level for the Proposed Rights Issue. The Company intends to undertake the Proposed Rights Issue on a Full Subscription Level basis (i.e. full subscription for the 465,146,809 Rights Shares under the Proposed Rights Issue).

The Company had, on 21 November 2014, procured an Undertaking from its Substantial Shareholder, namely Censof, to subscribe in full for its entitlement under the Proposed Rights Issue. Pursuant to the Undertaking, Censof has confirmed and AmInvestment Bank has verified that Censof has sufficient financial resources to subscribe in full for its entitlement to the Rights Shares as specified in the Undertaking.

Details of the Undertaking are as follows:-

| | **Direct shareholdings as at the LPD** | | **Rights Shares entitlement** | | |
|---|---|---|---|---|---|
| | **No. of Shares held** | **%** | **No. of Rights Shares** | **%[(a)]** | **Total commitment (RM)** |
| Censof | 304,112,731 | 39.23 | 182,467,638 | 39.23 | 38,318,204 |

*Note:-*

*(a) Based on the total of 465,146,809 Rights Shares.*

Censof is not expected to trigger any mandatory take-over offer obligations in accordance with Part III of the Malaysian Code on Take-Overs and Mergers 2010 following the subscription of its entitlement to the Rights Shares under the Proposed Rights Issue.

The Board intends to procure underwriting arrangements for the remaining portion of Rights Shares that are not covered under the Undertaking. Such underwriting arrangements are expected to be in place prior to the implementation of the Proposed Rights Issue, details of which will be set out in the abridged prospectus to be issued at a later date.

### 2.2 Proposed Special Issue

The Proposed Special Issue entails the issuance of 130,000,000 Special Issue Shares together with 65,000,000 Warrants on the basis of one (1) Warrant for every two (2) Special Issue Shares at an issue price of RM0.22 per Special Issue Share.

The Special Issue Shares shall be placed to third party investor(s) to be identified later in accordance with Paragraph 6.04(c) of the Listing Requirements. Placee(s) shall be person(s) or party(ies) who/which qualify under Schedules 6 and 7 of the CMSA.

The Special Issue Shares are not intended to be placed to the following persons:-

(a) Director, major shareholder or chief executive of DNeX ("**Interested Persons**");

(b) a Person Connected with the Interested Persons; or

(c) nominee corporations, unless the names of the ultimate beneficiaries are disclosed.

The Proposed Special Issue is for Bumiputera investors.

### 2.3 Proposed Acquisitions

The Proposed Acquisitions involve the acquisitions of the OGPC Group as follows:-

**(a) OGPC**

The Proposed OGPC Acquisition involves the acquisition of 500,000 OGPC Shares, representing 100% of the issued and paid-up share capital of OGPC from the Vendors.

**(b) OGPCOG**

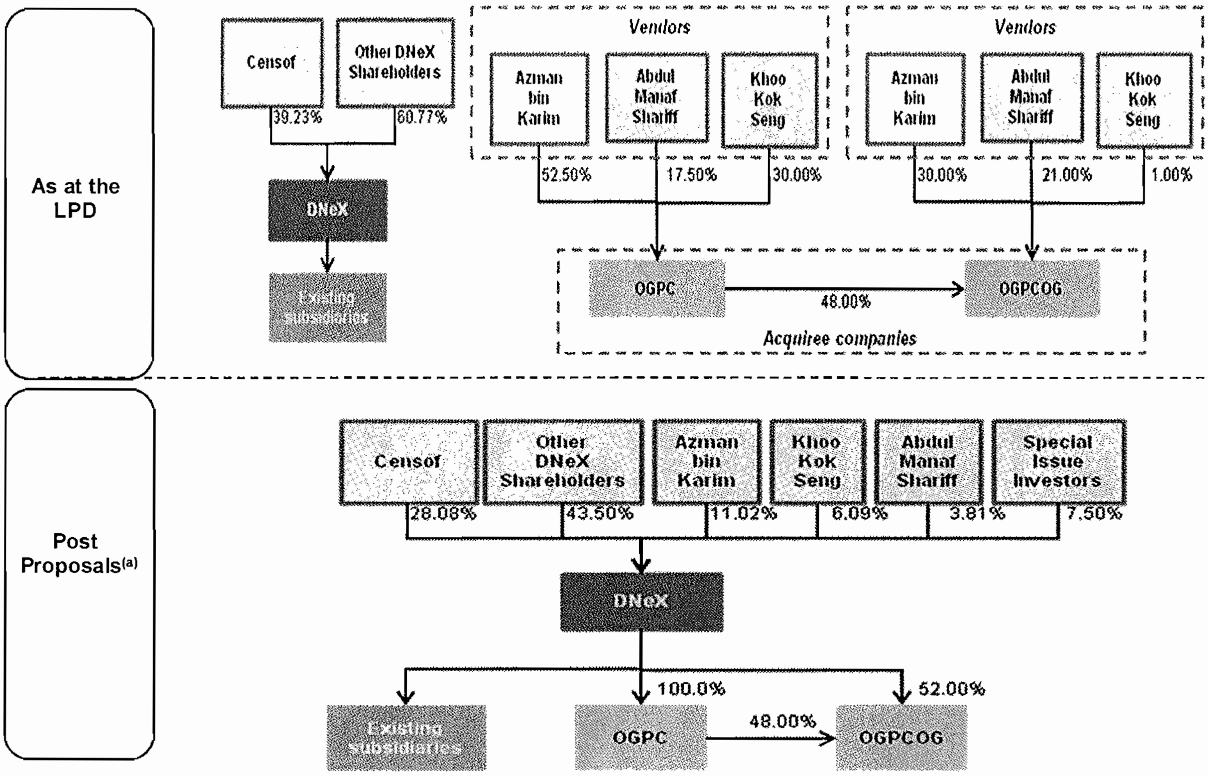
The Proposed OGPCOG Acquisition involves the acquisition of 520,000 OGPCOG Shares, representing 52.0% of the issued and paid-up share capital of OGPCOG, a 48.0%-owned associate company of OGPC, from the Vendors.

The OGPC Group Purchase Consideration of RM170,000,000 is to be satisfied by partial Cash Consideration of RM83,000,000 and the remaining RM87,000,000 via issuance of 362,500,000 Consideration Shares with 181,250,000 Warrants at an issue price of RM0.24 per Consideration Share on the basis of one (1) Warrant for every two (2) Consideration Shares issued. The Vendors will sell and transfer and DNeX will purchase, the Sale Shares free from all encumbrances together with all rights attached thereto including all dividends, rights and distributions declared paid or made in respect thereof at the OGPC Group Purchase Consideration.

Upon completion of the Proposed Acquisitions, DNeX will hold directly 100% equity interest in OGPC (which owns 48.0% equity interest in OGPCOG) and directly 52.0% equity interest in OGPCOG. DNeX may in the future restructure its shareholdings in OGPCOG to hold 100% direct equity interest.

Please refer to Appendix I(A) and Appendix I(B) of this Circular for further information on the OGPC Group.

The corporate structure of DNeX as at the LPD and upon completion of the Proposals (including the Proposed Acquisitions) are set out as follows:-




*Note:-*

*(a) Save for the Proposed ESOS and assuming none of the Warrants are being exercised.*

### 2.3.1 Proposed OGPC Acquisition

The Proposed OGPC Acquisition involves the acquisition of 500,000 OGPC Shares, representing 100% of the issued and paid-up share capital of OGPC from the Vendors for an OGPC Purchase Consideration of RM164,636,700 to be satisfied via the following:-

(a) cash consideration of RM80,381,448; and

(b) issuance of 351,063,550 Consideration Shares with 175,531,775 Warrants at an issue price of RM0.24 per Consideration Share on the basis of one (1) Warrant for every two (2) Consideration Shares issued for the balance amount of RM84,255,252.

The breakdown of OGPC Purchase Consideration for each of the Vendors is as follows:-

| **Vendors** | **No. of OGPC Shares** | **Equity interest in OGPC** | **OGPC Purchase Consideration** | **To be satisfied via** | | |
|---|---|---|---|---|---|---|
| | | | | **Cash** | **DNeX Shares** | **No. of Warrants** |
| | | | **RM** | **RM** | **RM** | |
| Azman bin Karim | 262,500 | 52.5% | 86,434,268 | 42,200,261 | 44,234,007 | 92,154,182 |
| Abdul Manaf bin Shariff | 87,500 | 17.5% | 28,811,422 | 14,066,753 | 14,744,669 | 30,718,060 |
| Khoo Kok Seng | 150,000 | 30.0% | 49,391,010 | 24,114,434 | 25,276,576 | 52,659,533 |
| **Total** | **500,000** | **100.0%** | **164,636,700** | **80,381,448** | **84,255,252** | **175,531,775** |

The Proposed OGPC Acquisition is subject to the terms and conditions of the SSA, as amended by the Supplemental SSA, the salient terms of which are set out in Appendix VI of this Circular.

The Warrants will be issued in the registered form and constituted by a Deed Poll to be executed by the Company. The Warrants to be issued pursuant to the Proposed OGPC Acquisition shall form the same class of Warrants to be issued pursuant to the Proposed Rights Issue, Proposed Special Issue and Proposed Acquisitions. The indicative salient terms of the Warrants are set out in Section 5 of this Circular.

Upon completion of the Proposed OGPC Acquisition, OGPC will become a wholly-owned subsidiary of DNeX.

**(i) Salient terms of the SSA, as amended by the Supplemental SSA**

Please refer to Appendix VI of this Circular for further details on the salient terms of the SSA, as amended by the Supplemental SSA.

**(ii) Information on OGPC**

OGPC was incorporated in Malaysia on 14 May 1994 as a private limited company under the Act with its registered office at B-13-15, Level 13, Menara Prima Tower B, Jalan PJU1/39, Dataran Prima, 47301 Petaling Jaya, Selangor Darul Ehsan.

OGPC is a Bumiputera company licensed by Petroliam Nasional Berhad ("**PETRONAS**") as an approved supplier of O&G equipment and services. OGPC is also a Tenaga Nasional Berhad ("**TNB**"), Ministry of Finance ("**MOF**") and Construction Industry Development Board ("**CIDB**") license holder. OGPC is also a registered vendor of Felda Holdings Berhad ("**FELDA**").

The principal activity of OGPC is the provision of engineering and technical support services for O&G industry and over the years, OGPC has established itself as a supplier and service provider for specialised equipment and parts which include compressors, pumps, valves, sampling system, heat tracing, filters, and technical support services including offshore services principally for the O&G sector. Other markets for OGPC product and services include the petrochemical, power and industrial sectors.

As at the LPD, the details of OGPC's Directors and Substantial Shareholders and their respective shareholdings in OGPC are as follows:-

| | | | Direct | | Indirect | |
|---|---|---|---|---|---|---|
| **Substantial Shareholders of OGPC** | **Designation** | **Nationality** | **No. of OGPC Shares** | **%** | **No. of OGPC Shares** | **%** |
| Azman bin Karim | Director | Malaysian | 262,500 | 52.5 | - | - |
| Abdul Manaf bin Shariff | Director | Malaysian | 87,500 | 17.5 | - | - |
| Khoo Kok Seng | Director | Malaysian | 150,000 | 30.0 | - | - |
| **Total** | | | **500,000** | **100.0** | **-** | **-** |

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As at the LPD, OGPC has one 48.0%-owned associate company namely, OGPCOG and the details of which are stipulated in Section 2.3.2 of this Circular.

Based on the Accountants' Report on the OGPC Group for the FYE 2014 which was prepared in compliance with the MFRSs and IFRSs, the OGPC Group's audited PAT and NA are at RM18.89 million and RM73.38 million respectively.

**(iii) Information on the Vendors**

**(a) Azman bin Karim**

Azman bin Karim, aged 49, Malaysian, is a Director and shareholder of OGPC and OGPCOG, holding 52.5% and 30.0% equity interest in OGPC and OGPCOG respectively. He is currently the Managing Director of OGPC and his main responsibilities are to secure contracts for the OGPC Group, manage the day-to-day operations of the OGPC Group as well as to oversee the OGPC Group's administration matters being assisted by the finance manager.

He graduated with a Bachelor of Science degree in Mechanical Engineering from the George Washington University in the USA in 1990. Upon graduation, he returned to Malaysia and worked as part-time physics lecturer and tutor in University Malaya in 1990. In 1991, he left to join SAAG Corporation Sdn Bhd ("**SAAG**") (currently known as SAAG Corporation Berhad). During his attachment with SAAG, he worked as a sales engineer and was responsible, amongst others, sales and marketing, customer communication and consultancy.

He left SAAG in 1992 to join Sony Electronics (M) Sdn Bhd ("**Sony**") based in Penang as a manufacturing engineer. During his short tenure with Sony, he was responsible for supervising a team of technicians on maintaining, trouble shooting and servicing the company's production lines and equipment. When he left Sony in the same year, he rejoined SAAG as a sales engineer. While in 1994, he joined Penanga Grove Sdn Bhd as a sales manager, responsible for the sales department, as well as contract and operations department. In 1995, he joined Matco (Malaysia) Sdn Bhd as a Sales Director before he left to establish OGPC in 1996 along with Mr Abdul Manaf bin Shariff and Mr Khoo Kok Seng.

He assumed the position of Managing Director in 1996. He also holds directorship in Magfield Power Technology (M) Sdn Bhd.

**(b) Abdul Manaf bin Shariff**

Abdul Manaf bin Shariff, aged 46, Malaysian, is a Director and shareholder of OGPC and OGPCOG, holding 17.5% and 21.0% equity interest in OGPC and OGPCOG respectively. He is currently the general manager of OGPC and is responsible for daily sales and services administration.

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He graduated with a Diploma in Petroleum Engineering from University of Technology Malaysia in 1990. He commenced his career as a sales engineer with SAAG in 1991 and was responsible for, amongst others, establishing new and maintaining existing relationships with customers. His last position with SAAG was the sales manager before leaving to establish OGPC along with Mr Azman bin Karim and Mr Khoo Kok Seng in 1996.

**(c) Khoo Kok Seng**

Khoo Kok Seng, aged 57, Malaysian, is a Director and shareholder of OGPC and OGPCOG, holding 30.0% and 1.0% equity interest in OGPC and OGPCOG respectively. He is currently the business development Director responsible for identifying new projects, business opportunities and customer relationship.

He is a graduate member of the Institute of Engineers Malaysia, and a member of the Institute of Mechanical Engineers, UK and Society of Petroleum Engineers.

He graduated with a Bachelor in Engineering from the Institution of Mechanical Engineers in UK in 1983. He started his career as a project/sales engineer with George Kent (M) Bhd in 1983. As a project/sales engineer, he was responsible for promoting and selling engineering equipment to customers in the industrial and O&G industries. He then left to join Transtrade Corporation Sdn Bhd as an engineering sales manager in 1988 where he was responsible for, amongst others, formulating strategies and plans for the sales and marketing of engineering equipment and services to the industrial and O&G industries. He then joined SAAG as a sales and marketing manager in 1990 and was in charge of all matters pertaining to sales and marketing activities. His last position with SAAG was as its general manager before leaving to establish OGPC along with Mr Azman bin Karim and Mr Abdul Manaf bin Shariff in 1996.

He also holds directorship in Magfield Power Technology (M) Sdn Bhd.

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(iv) **Original cost and date of investment by the Vendors**

| Vendors | Date of investment | Original cost of investment RM |
|---|---|---|
| Azman bin Karim | 10 January 1996 | 30 |
| | 11 January 1996 | 54,970 |
| | 9 July 1998 | 20,000 |
| | 27 October 1998 | 3,750 |
| | 6 September 1999 | 52,500 |
| | 14 October 2002 | 131,250 |
| Abdul Manaf bin Shariff | 11 January 1996 | 15,000 |
| | 9 July 1998 | 7,500 |
| | 6 September 1999 | 15,000 |
| | 12 March 2001 | 6,250 |
| | 14 October 2002 | 43,750 |
| Khoo Kok Seng | 10 January 1996 | 70 |
| | 11 January 1996 | 29,930 |
| | 9 July 1998 | 15,000 |
| | 6 September 1999 | 30,000 |
| | 14 October 2002 | 75,000 |
| Total | | **500,000** |

(v) **Liabilities to be assumed**

As at the LPD, OGPC has multi option line facilities from the following financial institutions:-

| Name of financial institution | Facility amount RM'000 | Utilisation as at the LPD RM'000 |
|---|---|---|
| CIMB Bank Berhad | 7,600 | 2,995 |
| HSBC Bank Malaysia Berhad | 3,000 | 0 |
| Malayan Banking Berhad | 3,000 | 1,568 |

The above facilities are secured by, amongst others, joint and several guarantees of the Vendors. DNeX shall discuss with the respective financial institutions and if required, will provide corporate guarantees for the aforesaid facilities.

Save as disclosed above, there are no liabilities, including contingent liabilities and guarantees to be assumed by DNeX Group pursuant to the Proposed OGPC Acquisition.

### 2.3.2 Proposed OGPCOG Acquisition

The Proposed OGPCOG Acquisition involves the acquisition of 520,000 OGPCOG Shares, representing 52.0% of the issued and paid-up share capital of OGPCOG from the Vendors for an OGPCOG Purchase Consideration of RM5,363,300 to be satisfied via the following:-

(a) cash consideration of RM2,618,552; and

(b) issuance of 11,436,450 Consideration Shares with 5,718,225 Warrants at an issue price of RM0.24 per Consideration Share on the basis of one (1) Warrant for every two (2) Consideration Shares issued for the balance amount of RM2,744,748.

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The breakdown of OGPCOG Purchase Consideration is as follows:-

| Vendors | No. of OGPCOG Shares | Equity interest in OGPCOG | OGPCOG Purchase Consideration | To be satisfied via | | |
|---|---|---|---|---|---|---|
| | | | | Cash | DNeX Shares | No. of Warrants |
| | | | RM | RM | RM | |
| Azman bin Karim | 300,000 | 30.0% | 3,094,211 | 1,510,703 | 1,583,508 | 3,298,976 |
| Abdul Manaf bin Shariff | 210,000 | 21.0% | 2,165,948 | 1,057,493 | 1,108,455 | 2,309,281 |
| Khoo Kok Seng | 10,000 | 1.0% | 103,141 | 50,356 | 52,785 | 109,968 |
| **Total** | **520,000** | **52.0%** | **5,363,300** | **2,618,552** | **2,744,748** | **5,718,225** |

The Proposed OGPCOG Acquisition is subject to the terms and conditions of the SSA, as amended by the Supplemental SSA, the salient terms of which are set out in Appendix VI of this Circular.

The Warrants will be issued in the registered form and constituted by a Deed Poll to be executed by the Company. The Warrants to be issued pursuant to the Proposed OGPCOG Acquisition shall form the same class of Warrants to be issued pursuant to the Proposed Rights Issue, Proposed Special Issue and Proposed Acquisitions. The indicative salient terms of the Warrants are set out in Section 5 of this Circular.

Upon completion of the Proposed OGPCOG Acquisition, DNeX will own 52.0% equity interest in OGPCOG (the remaining 48.0% equity interest is owned by OGPC). DNeX may in the future restructure its shareholdings in OGPCOG to directly own 100% equity interest.

**(i) Salient terms of the SSA, as amended by the Supplemental SSA**

Please refer to Appendix VI of this Circular for further details on the salient terms of the SSA, as amended by the Supplemental SSA.

**(ii) Information on OGPCOG**

OGPCOG was incorporated in Malaysia on 6 February 2008 as a private limited company under the Act with its registered office at B-13-15, Level 13, Menara Prima Tower B, Jalan PJU1/39, Dataran Prima, 47301 Petaling Jaya, Selangor Darul Ehsan.

OGPCOG is principally involved in the sale of O&G related equipment, provision of engineering and technical support services for the O&G industry.

As at the LPD, the Directors and Substantial Shareholders of OGPCOG and their respective shareholdings are as follows:-

| Substantial Shareholders of OGPCOG | Designation | Nationality | Direct | | Indirect | |
|---|---|---|---|---|---|---|
| | | | No. of OGPCOG Shares | % | No. of OGPCOG Shares | % |
| OGPC | N/A | N/A | 480,000 | 48.0 | - | - |
| Azman bin Karim | Director | Malaysian | 300,000 | 30.0 | 480,000[(a)] | 48.0 |
| Abdul Manaf bin Shariff | Director | Malaysian | 210,000 | 21.0 | 480,000[(a)] | 48.0 |
| Khoo Kok Seng | Director | Malaysian | 10,000 | 1.0 | 480,000[(a)] | 48.0 |
| **Total** | | | **1,000,000** | **100.0** | - | - |

*Note:-*

*(a) Deemed interested by virtue of shareholdings in OGPC, which in turn holds shares in OGPCOG.*

As at the LPD, OGPCOG does not have any subsidiary or associate company.

Based on the Accountants' Report on the OGPC Group for the FYE 2014 which was prepared in compliance with the MFRSs and IFRSs, the OGPC Group's audited PAT and NA are at RM18.89 million and RM73.38 million respectively.

**(iii) Information on Vendors**

**(a) Azman bin Karim**

Please refer to Section 2.3.1(iii)(a) of this Circular for further information on Azman bin Karim.

**(b) Abdul Manaf bin Shariff**

Please refer to Section 2.3.1(iii)(b) of this Circular for further information on Abdul Manaf bin Shariff.

**(c) Khoo Kok Seng**

Please refer to Section 2.3.1(iii)(c) of this Circular for further information on Khoo Kok Seng.

**(iv) Original cost and date of investment by the Vendors**

| Name | Date of investment | Original cost of investment RM |
|---|---|---|
| Azman bin Karim | 6 February 2008 | 30,000 |
| | 25 April 2008 | 120,000 |
| | 4 September 2008 | 150,000 |
| Abdul Manaf bin Shariff | 6 February 2008 | 21,000 |
| | 25 April 2008 | 84,000 |
| | 4 September 2008 | 105,000 |
| Khoo Kok Seng | 6 February 2008 | 1,000 |
| | 25 April 2008 | 4,000 |
| | 4 September 2008 | 5,000 |
| **Total** | | **520,000** |

**(v) Liabilities to be assumed**

CIMB Bank Berhad has granted a multi option line facility of RM3,000,000 to OGPCOG, none of which has been utilised as at the LPD. The said facility is secured by, amongst others, joint and several guarantees of the Vendors. DNeX shall discuss with CIMB Bank Berhad and if required, will provide corporate guarantees for the aforesaid facilities.

Save as disclosed above, there are no further liabilities, including contingent liabilities and guarantees to be assumed by DNeX Group pursuant to the Proposed OGPCOG Acquisition.

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### 2.3.3 Basis and justification of arriving at the OGPC Group Purchase Consideration

The OGPC Group Purchase Consideration of RM170,000,000 was arrived at on a willing buyer-willing seller basis after taking into consideration the following factors:-

(a) the audited PAT of OGPC and OGPCOG for the FYE 2013 of RM24.25 million and RM1.03 million respectively.

For information purpose, the Accountants' Report on the OGPC Group for the FYE 2013 was prepared in compliance with the MFRSs and IFRSs, with audited PAT of OGPC Group at RM25.28 million, which the OGPC's Group PER stood at 6.72;

(b) the unaudited PAT of OGPC and OGPCOG for the FYE 2014 of RM19.13 million and RM165,607 respectively.

Based on the combined unaudited PAT of OGPC and OGPCOG at RM19.30 million for the FYE 2014, the OGPC Group's PER stood at 8.81.

For information purpose, the audited financial statements of OGPC and OGPCOG for the FYE 2014 were only made available to DNeX subsequent to the signing of the Supplemental SSA on 5 March 2015. Based on the Accountants' Report on the OGPC Group for the FYE 2014, the audited PAT of the OGPC Group is RM18.89 million, which the OGPC Group's PER stood at 9.0 times;

(c) the dividend to be paid by the OGPC Group (whereby the OGPC Group's adjusted net tangible assets would be rendered not less than RM44.38 million consisting of a cash balance of not less than RM25.20 million as at the completion date of the Proposed Acquisitions pursuant to the Supplemental SSA).

For information purpose, the Accountants' Report on the OGPC Group for the FYE 2014 was prepared in compliance with the MFRSs and IFRSs, with the audited NA of the OGPC Group at RM73.38 million, which the OGPC Group's PBR stood at 2.3 times;

(d) the outlook of the O&G industry in Malaysia and the OGPC Group's future business prospects as set out in Section 8.2 and Section 8.4 of this Circular respectively; and

(e) trading PER multiples of OGPC Group Comparable Companies as set out in Appendix IX of this Circular.

At this juncture, there are no company listed on Bursa Securities that can be considered to be directly comparable to the OGPC Group in terms of, amongst others, composition of business activities, production capacity, risk profile, asset base, profit track record, financial position, prospects and competitive environment.

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However, for illustration purposes only and in order to facilitate the evaluation and assessment of the Proposals by the Shareholders, Protégé, being the independent market researcher, has identified several OGPC Group Comparable Companies based on the following criteria:-

(i) registered a turnover of over RM80 million based on latest financial information;

(ii) involved in the provision of pumps or valves; and

(iii) caters to the O&G industry.

Additionally, AmInvestment Bank has also tabulated an additional list of OGPC Group Comparable Companies based on the following criteria:-

(i) involved in the provision of oil equipment; and

(ii) designing and fabrication works in the O&G industry and petrochemicals.

The OGPC Group Purchase Consideration represents a PER of 8.6 times based on the average PAT of OGPC's and OGPCOG's audited accounts from the FYE 2011 to FYE 2013 and unaudited accounts for the FYE 2014 of approximately RM19.30 million as follows:-

| | **OGPC Group (RM'000)** |
|---|---|
| PAT for FYE:- | |
| 2011 | 17,985 |
| 2012 | 16,725 |
| 2013 | 25,279 |
| 2014 | 19,296 |
| **Average** | **19,821** |

Average PAT of OGPC's and OGPCOG's audited accounts from the FYE 2011 to FYE 2013 and unaudited accounts for the FYE 2014 rather than the most recent PAT, i.e. FYE 2014 was used as part of the considerations in determining the OGPC Group Purchase Consideration because of the following reasons:-

(i) this basis was agreed between DNeX and the Vendors in determining the initial OGPC Group's purchase consideration of RM203 million on 18 June 2014. Hence, the same basis is applied in determining the revised OGPC Group purchase consideration of RM170 million on 5 March 2015; and

(ii) a fairer approach to use the average profit of the OGPC Group over a period of time as the profitability of the OGPC Group fluctuates depending on, amongst others, the market or the O&G industry conditions which also changes over time.

The PER of 8.6 times is lower than the PER averages of OGPC Group Comparable Companies of 10.8 and 11.1 times.

For information purpose, based on the Accountants' Report on the OGPC Group for the FYE 2014, the PER of OGPC Group stood at 9.0 times, which is lower than the PER averages of OGPC Group Comparable Companies of 10.8 and 11.1 times.

#### 2.3.4 Basis and justification of arriving at the issue price of the Consideration Share

The issue price of RM0.24 per Consideration Share was arrived at, after taking into consideration the TERP of RM0.2691, calculated based on the 5D-VWAMP of DNeX Shares up to and including 4 March 2015 of RM0.3046, being the date immediately preceding the date of the execution of the Supplemental SSA in connection with the Proposed Acquisitions which represents a discount of approximately RM0.0291 or 10.81% to the TERP of RM0.2691.

For information purpose, Rights Shares are issued at RM0.21 per Rights Share pursuant to the Proposed Rights Issue representing a **higher** discount as compared to the discount given to the Consideration Share of approximately RM0.0591 or 21.96% to the TERP of RM0.2691.

For information purpose, Special Issue Shares are issued at RM0.22 per Special Issue Share pursuant to the Proposed Special Issue representing a higher discount as compared to the discount given to the Consideration Share of approximately RM0.0491 or 18.25% to the TERP of RM0.2691.

As for the Warrants issuance basis, **higher** basis of Warrants are allocated to the Rights Shares at the basis of one (1) Warrant for every one (1) Rights Share issued as compared to the basis of Warrants allocated to the Consideration Shares at the basis of one (1) Warrant for every two (2) Consideration Shares issued.

#### 2.3.5 Source of funding

The Company intends to fund the Cash Consideration of the Proposed Acquisitions via the following sources:-

| Sources of funding | RM'000 |
|---|---|
| Proceeds arising from Proposed Rights Issue | 73,000 |
| Internally generated funds | 10,000 |
| **Total** | **83,000** |

#### 2.3.6 Additional financial commitment required

Save for the OGPC Group Purchase Consideration, there are no additional financial commitments required by DNeX to put the business of the OGPC Group onstream. The OGPC Group is an on-going business entity.

#### 2.3.7 Salient terms of the Management Services Agreements

On 15 November 2014, DNeX and OGPC had entered into Management Services Agreements with the Vendors respectively for the appointment of Azman bin Karim as the Managing Director of OGPC and Abdul Manaf bin Shariff and Khoo Kok Seng as the Executive Directors of OGPC for a fixed duration of two (2) years commencing from the completion date of the SSA and such appointment is renewable on agreement by all parties. In addition, three (3) years moratorium is imposed on the transfer of the Consideration Shares from the completion date of the SSA whereby the Vendors cannot sell, transfer, assign, mortgage, pledge or otherwise encumber, dispose of or deal with or part with the registered or beneficial ownership of any of their portions of the Consideration Shares without the prior consent in writing from DNeX.

Please refer to Appendix VII of this Circular for further details on the salient terms of the Management Services Agreements.

### 2.3.8 DNeX's expertise and resources to manage the OGPC Group

DNeX Group is principally involved in ICT business.

The acquiree company, OGPC is principally engaged in the provision of engineering and technical support services for the O&G industry, while, OGPCOG is principally engaged in the sale of O&G related equipment, provision of engineering and technical support services for the O&G industry.

Hence, for DNeX Group to diversify into O&G industry, Encik Zainal 'Abidin bin Abd Jalil ("**Encik Zainal**") was appointed as the Group Managing Director of DNeX by the Board to lead the newly set up energy division of DNeX, with effect from 19 June 2014, being the second day whereby the Initial Announcement was made. He is an accomplished industry leader with a wealth of experience in managing large-scale global businesses that operate in the high-technology and capital-intensive upstream O&G industries as well as power generation utilities.

Encik Zainal, aged 56, graduated with a Bachelor of Engineering (Civil Engineering) from University of Queensland, Australia in 1982. He has significant exploration and production ("**E&P**") leadership experience in offshore operations including shallow water platform operations, deepwater floating production, storage and offloading units ("**FPSOs**") and sub-sea wells as well as deep expertise in field development, reservoir and subsurface engineering, field operations and asset management.

Prior to joining DNeX in June 2014, Encik Zainal was the chief executive officer of Malakoff Corporation Berhad from June 2011 to March 2014. Encik Zainal successfully spearheaded the company's transformation into a leading international independent water and power producer with core businesses in power generation, water desalination as well as operations and maintenance services in Malaysia, Asia Pacific and Middle East. Prior to Malakoff Corporation Berhad, Encik Zainal had a long career at ExxonMobil Exploration & Production Malaysia Inc ("**ExxonMobil**") spanning twenty eight (28) years in various managerial and leadership capacities at the multinational company's business units and operations worldwide.

Encik Zainal has been instrumental in DNeX's strategic diversification into the energy business. DNeX is building scale through merger and acquisitions to create a sustainable business model centred on oilfield services, small power plants and upstream E&P. DNeX is pursuing a number of attractive investments in brownfield O&G projects in matured proven hydrocarbon provinces in the North Sea and Gulf of Mexico as well as in Asia Pacific and Middle East.

#### (a) Energy division of DNeX

The energy division of DNeX was newly set up subsequent to the Initial Announcement. As at the LPD, the energy division of DNeX comprising four (4) sub-divisions and eight (8) employees who are directly involve in running the operation of DNeX's energy division are as follows:-

| **Sub-division** | **Number of employees** |
|---|---|
| | |
| Business development, corporate strategy and investment | 2 |
| O&G product and services | 2 |
| Power | 3 |
| Upstream exploration and production | 1 |
| | |
| **Total employees** | **8** |

**(b) Profiles of senior management personnel**

The profiles of the senior management personnel are as follows:-

**(i) Mohd Hasery bin Abu Bakar**

Mohd Hasery bin Abu Bakar, aged 39, is the senior vice president of the business development, corporate strategy and investment sub-division of DNeX's energy division.

Mohd Hasery bin Abu Bakar graduated from University of Herfordshire, UK with a Bachelor of Engineering in Electrical and Electronics Engineering in 2000 and has obtained Master of Business Administration in International Business from University of East London, UK in 2011.

He started his career in VADS Berhad as an operation engineer in 2000 before spending six (6) years in Shell from 2001 to 2007. Before he left Shell in 2007, as a process and service development specialist, he had the exposure in supporting Shell's business globally in the area of upstream and downstream.

In 2007, he joined Petrofield (M) Sdn Bhd as a business and corporate services manager, providing support to the top management in terms of planning and corporate support. The company was involved in a multibillion project in The Islamic Republic of Iran for the Development Of Golshan and Firdausi O&G fields, Liquefied Natural Gas ("**LNG**") plant and oil refineries.

In 2010, he joined Baker Hughes (M) Sdn Bhd as a business development manager, covering the product line of pressure pumping which include cementing and coil tubing.

Prior to joining DneX, he was the chief executive officer of Hevilift (M) Sdn Bhd which he founded in 2012 and is primarily responsible to lead the business covering commercial arrangement and contract negotiation with third parties.

In 2014, he joined DNeX to assume his current position. He has more than fourteen (14) years of experience in the global O&G industry with a substantial achievement in the areas of business development and corporate strategy.

**(ii) Wan Azryn bin Wan Ab Rashid**

Wan Azryn Wan bin Ab Rashid, aged 32, is the general manager of DNeX Oilfield Services Sdn Bhd ("**DNeX Oilfield**"), a subsidiary of DNeX, which is categorised under the O&G product and services sub-division of DNeX's energy division. He is also the assistant vice president for the business development, corporate strategy and investment sub-division of DNeX's energy division. He is mainly responsible to drive the green portfolio of DNeX Oilfield's oilfield services business as well as to perform business evaluation and risk assessment of any new potential business that DNeX Group energy division can participate.

Wan Azryn bin Wan Ab Rashid graduated from the University Technology of Malaysia with a Bachelor of Engineering in Electrical and Electronics in 2007.

He started his career in Schlumberger Limited as a field engineer in drilling and measurement division in 2006 and was subsequently promoted to the position of engineer in charge for the West Malaysia in 2009. During his tenure there, he had gained valuable engineering experience with various postings within the company which include Malaysia, Philippines, United Arab Emirates and Australia.

In 2009, he joined Transocean Drilling (M) Sdn Bhd as an account engineer which he was responsible for the business development of the company. In 2010, he was seconded to Applied Corrosion Engineering Services Sdn Bhd as the general manager in the O&G division which he was responsible to transform the business and drive the growth of the company, both organically and inorganically.

In 2011, he joined Baker Hughes Incorporated as a sales manager for drilling services in Malaysia and was promoted to overseeing drilling services in South East Asia in 2012. In 2014, he was appointed as a global account director for PETRONAS. His main responsibility is to look after the domestic and international of Baker Hughes Incorporated's businesses with PETRONAS, encompassing all product lines across the organisation.

In 2015, he joined DNeX to assume his current position. He has more than nine (9) years of engineering, commercial and business management experiences in the global O&G industry.

**(iii) Dato' Azmi bin Abdullah**

Dato' Azmi bin Abdullah, aged 55, is the Managing Director of Forward Energy Sdn Bhd ("**FESB**"), a subsidiary of DNeX under the power sub-division of DNeX's energy division.

He started his career as a quality control inspector in the generation and projects department of the National Electricity Board (now known as Tenaga Nasional Berhad) in 1980. During the period from 1984 to 1990, he furthered his studies and graduated from Point Park College, Pennsylvania, USA with a Bachelor of Science in Mechanical Engineering Technology in 1987 and has obtained Master of Arts in Industrial and Labor Relations from Indiana University of Pennsylvania, USA in 1990.

After his studies in 1990, he was stationed back to the generation and projects department as a project engineer at Tenaga Nasional Berhad, which he was mainly responsible for assessing the technical feasibilities, financing and socio-economic aspects of new projects to be undertaken by Tenaga Nasional Berhad.

In 1992, he joined Sikap Energy Ventures Sdn Bhd (now known as Segari Energy Ventures) as a project manager and later was promoted to the position of general manager in 1993, which he was mainly responsible for all aspects of the project including financing and project management. He was further promoted to the position of chief operating officer in 1996, which he was responsible to ensure that the power plant is efficiently operated and maintained.

In 2000, he joined Jimah Power Sdn Bhd as a Managing Director, which he was mainly responsible for power plant project agreement negotiation and project financing in relation to the power plant project of the company in Negeri Sembilan.

In 2003, he formed A&Z Power Consult Sdn Bhd, a consultancy platform for developing energy related projects, which provides engineering consulting services relating to the electricity and gas supply industry. He also founded FESB in the same year with the principal activity to venture into the development of private power generating plants under the independent power producers scheme. He has more than thirty (30) years of project financing and project management experiences in the power industry.

In 2014, DNeX has entered into an agreement with Dato' Azmi bin Abdullah, the chief executive officer of FESB to purchase 51% equity interest in FESB. Please refer to Section 3.1(g) of Appendix X of this Circular for more information in relation to the FESB agreement.

## 2.4 Proposed ESOS

The Company proposes to establish and implement the Proposed ESOS which involve the offering and granting of ESOS Options to the Eligible Persons to subscribe for ESOS Options at an ESOS Subscription Price in accordance with the terms and conditions of the By-Laws, a draft of which is set out in Appendix VIII of this Circular.

The Proposed ESOS will be administered by the ESOS Committee which shall be vested with such powers and duties as are conferred upon it by the Board and the Board may determine all matters pertaining to the ESOS Committee, including its duties, powers and limitations.

For avoidance of doubt, the Proposed ESOS is only expected to be implemented after the completion of the Proposed Rights Issue, Proposed Special Issue and Proposed Acquisitions.

### 2.4.1 Salient features of the Proposed ESOS

For the purpose of Section 2.4.1 of this Circular, "DNeX Group" or the "Group" means DNeX and its subsidiaries which are not dormant including the OGPC Group which will form part of DNeX Group upon completion of the Proposed Acquisitions. If there is any discrepancy between the terms of the draft By-Laws and the contents of this Circular in relation to the Proposed ESOS, the terms of the By-Laws shall prevail. The salient features of the Proposed ESOS are as follows:-

**(a) Maximum number of DNeX Shares available under the Proposed ESOS**

The maximum number of DNeX Shares to be allotted and/or issued pursuant to the exercise of the ESOS Options that may be granted under the Proposed ESOS shall not exceed in aggregate five percent (5%) of the prevailing issued and paid-up share capital of the Company (excluding treasury shares, if any) at any point in time when an Offer is made during the duration of the Proposed ESOS. The Company will for the duration of the Proposed ESOS make available sufficient number of new DNeX Shares in the unissued share capital of DNeX to satisfy all subsisting ESOS Options which may be exercisable from time to time.

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In the event the maximum number of new DNeX Shares comprised in the ESOS Options granted under the Proposed ESOS exceeds the aggregate of five percent (5%) of the prevailing issued and paid-up share capital of the Company (excluding treasury shares, if any) as a result of the Company purchasing, cancelling or reducing its own Shares in accordance with the provisions of the Act or any other corporate proposal and thereby diminishing its issued and paid-up share capital, then such ESOS Options granted prior to the adjustment of the issued and paid-up share capital of the Company shall remain valid and exercisable in accordance with the provisions of the Proposed ESOS. However, in such a situation, the Company shall not make any more new Offers until the total number of Shares under the subsisting ESOS Options including Shares that have been issued under the Proposed ESOS falls below five percent (5%) of the Company's issued and paid-up share capital (excluding treasury shares, if any).

**(b) Basis of allotment and maximum allowable allotment of DNeX Shares**

Subject to any adjustments which may be made under the By-Laws, the aggregate number of new DNeX Shares comprised in the ESOS Options to be offered to an Eligible Person in accordance with the Proposed ESOS shall be determined at the sole and absolute discretion of the ESOS Committee after taking into consideration, amongst other, the Selected Person's performance, seniority and number of years in service and such other factors that the ESOS Committee may deem relevant in its discretion, subject to the following:

(i) that the number of ESOS Options made available under the Proposed ESOS shall not exceed the amount stipulated in Section 2.4.1(a) above;

(ii) the allocation to any individual Selected Person who, either singly or collectively through Persons Connected with him, holds twenty percent (20%) or more in the issued and paid-up share capital of the Company (excluding treasury shares, if any), does not exceed ten percent (10%) of the total number of DNeX Shares to be issued under the Proposed ESOS at any point in time when an Offer is made; and

(iii) the Executive Directors and employees of the Group do not participate in the voting, deliberation or discussion of their own allocations of ESOS Options under the Proposed ESOS,

provided always that it is in compliance with the Listing Requirements, any prevailing guidelines, rules, regulations or requirements as amended from time to time issued by any other relevant regulatory authorities.

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**(c) Eligibility**

Any employee or Executive Director shall be eligible to participate in the Proposed ESOS and qualify for selection by the ESOS Committee, if, as at the date on which an Eligible Person is deemed eligible to participate in the Proposed ESOS, such Eligible Person:-

(i) has attained the age of eighteen (18) years;

(ii) has been employed on a full time basis and is on the payroll of any corporation within DNeX Group and his employment has been confirmed or such Eligible Person is serving in a specific designation under an employment contract for a fixed duration of at least one (1) year;

(iii) is not a participant of any other employee share option scheme implemented by any company within DNeX Group which is in force for the time being; and

(iv) has fulfilled any other eligibility criteria and/or falls within such grade/category as may be determined by the ESOS Committee at its sole discretion from time to time,

provided that nothing shall invalidate any selection of any Eligible Person which may have been made by the Board on or prior to the Effective Date. For the avoidance of doubt, the ESOS Committee may determine any other eligibility criteria and/or waive any of the conditions of eligibility as set out above, for purposes of selecting an Eligible Person at any time and from time to time, in the ESOS Committee's discretion.

Notwithstanding anything set out in the By-Laws and subject to the Listing Requirements, no Offers may be granted to any person who is a Director, a major shareholder, chief executive of the Company, or a Person Connected with a Director, major shareholder or chief executive of the Company, unless the specific grant of that Offer to that person shall have previously been approved by the Shareholders in a general meeting.

**(d) Duration of the Proposed ESOS**

The Proposed ESOS shall be in force for a period of five (5) years commencing from the Effective Date of the implementation of the Proposed ESOS, which shall be the date of full compliance with all of the relevant rquirements including the following:-

(i) submission of the final copy of the By-Laws to Bursa Securities:

(ii) receipt of approval-in-principle for the issuance, and listing of and quotation for the Shares to be issued under the Proposed ESOS from Bursa Securities;

(iii) procurement of Shareholders' approval for the Proposed ESOS;

(iv) receipt of approval of any other relevant authorities, where applicable; and

(v) fulfilment of all conditions attached to the above approvals, if any.

On or before the expiry of the Proposed ESOS, the Board shall have the absolute discretion, without having to obtain sanction, approval or authorisation of the Shareholders in a general meeting, to extend the duration of the Proposed ESOS upon recommendation of the ESOS Committee, provided that the initial period of the Proposed ESOS and such extension thereof shall not in aggregate exceed the duration of ten (10) years from the Effective Date.

In the event the Proposed ESOS is extended in accordance with the By-Laws, the ESOS Committee shall furnish a written notification to all Grantees and the Company shall make necessary announcements to Bursa Securities prior to the proposed extension of the Proposed ESOS.

The ESOS Committee may at its discretion decide whether the allocation of the ESOS Options shall be staggered over the duration of the Proposed ESOS.

**(e) Retention period**

The new DNeX Shares to be issued and allotted to the Grantees pursuant to the exercise of the ESOS Options under the Proposed ESOS will not be subject to any retention period or restriction on transfer, disposal and/or assignment. However, the Grantees are encouraged to hold the Shares as a long-term investment and not for any speculative and/or realisation of immediate gain.

**(f) Exercise of ESOS Options**

An ESOS Option granted to a Grantee under the Proposed ESOS, subject to the provisions of By-Laws, is exercisable by that Grantee during his lifetime within the Option Period. All unexercised ESOS Options shall become null and void after the Date of Expiry.

Upon acceptance of an Offer, the Grantee may during the Option Period exercise his ESOS Options at such time and in such manner and subject to such conditions as stipulated in the Offer.

An ESOS Option may be exercised in such manner and subject to such conditions as stipulated in the Offer in respect of such lesser number of new Shares as the Grantee may decide to exercise. Such partial exercise of an ESOS Option shall not preclude the Grantee from exercising the ESOS Option as to the balance of any new Shares, if any, which he is entitled to subscribe under the Proposed ESOS.

**(g) Termination of the Proposed ESOS**

Subject to compliance with the Listing Requirements, guidelines or directives issued by Bursa Securities and/or any other relevant authorities, the Company may at any time during the duration of the Proposed ESOS terminate the Proposed ESOS and shall immediately announce to Bursa Securities the:-

(i) effective date of termination of the Proposed ESOS;

(ii) number of ESOS Options exercised or Shares vested; and

(iii) reasons for termination of the Proposed ESOS,

whereupon all Offers shall be deemed revoked and be null and void and any unexercised ESOS Options shall be deemed to cease to be capable of being exercised and be null and void.

**(h) Costs and expenses**

All fees, costs and expenses incurred in relation to the Proposed ESOS including but not limited to the fees, costs and expenses relating to the allotment and issue of new DNeX Shares pursuant to the exercise of any ESOS Options shall be borne by the Company.

**(i) Alteration of share capital and adjustment**

In the event of any alteration in the capital structure of the Company during the Option Period, whether by way of capitalisation of profits or reserves, rights issues, subdivision or consolidation of shares or capital reduction or any other variation of capital:-

(i) the number of new Shares which a Grantee shall be entitled to subscribe for upon the exercise of each ESOS Option (excluding ESOS Options already exercised); and/or

(ii) the ESOS Subscription Price,

shall be adjusted in such manner as provided in the By-Laws.

Any adjustments to the ESOS Subscription Price and/or the number of new Shares comprised in the ESOS Options so far as unexercised other than bonus issue, must be confirmed in writing by the external auditors of the Company or the Company's adviser.

Should there be other circumstances which give rise to a consideration for adjustments to the ESOS Subscription Price or the number of new Shares in favour of all Grantees, but it is decided that no adjustments will be made, such decision much be made known to all the Grantees via a timely notice subject to compliance with the Listing Requirements.

**(j) Amendment and/or modifications to the By-Laws**

The ESOS Committee may recommend to the Board who shall have the power at any time and from time to time by resolution to amend and/or modify all or any part of the By-Laws and the Board shall have the power by resolution to add, amend or modify and/or delete all or any of the By-Laws under such recommendation.

The approval of the Shareholders in a general meeting shall not be required in respect of additions, amendments to, or deletions of the By-Laws except that subject to any applicable laws, no addition, amendment or deletion shall be made to these By-Laws without the prior approval of the Shareholders in a general meeting which would:-

(i) prejudice any rights which have accrued to any Grantee without his prior consent; or

(ii) increase the number of new Shares available under the Proposed ESOS beyond the maximum imposed by Section 2.4.1(a) above; or

(iii) alter any matter which are required to be contained in the By-Laws by virtue of Appendix 6E of the Listing Requirements to the advantage of the Selected Persons.

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## 3. BASIS AND JUSTIFICATION OF ARRIVING AT THE ISSUE PRICE OF THE RIGHTS SHARES, SPECIAL ISSUE SHARES, ESOS SUBSCRIPTION PRICE AND EXERCISE PRICE OF THE WARRANTS

### 3.1 Issue price of the Rights Shares

On 18 June 2014, being the date of the Initial Announcement, whereby the Board has determined the issue price of the Rights Shares based on market principles at a level that is in the best interest of the Company, after taking into consideration the following:-

(a) the funding requirements for the Proposed Acquisitions, details of which are set out in Section 2.3 of this Circular;

(b) the historical share price volatility of DNeX;

(c) the TERP of DNeX Share;

(d) the appropriate discount to the TERP, subject to (e) below; and

(e) the minimum issue price allowable under the Act which is not less than the par value of DNeX Shares of RM0.20 each.

Based on the issue price of RM0.21 per Rights Share, it represents a discount of approximately RM0.0711 or 25.29% to the TERP of RM0.2811, calculated based on the 5D-VWAMP of DNeX Shares up to and including 17 June 2014 of RM0.3238, being the last trading day prior to 18 June 2014.

### 3.2 Issue price of the Special Issue Shares

On 18 June 2014, being the date of the Initial Announcement, whereby the Board has determined the issue price of the Special Issue Share at RM0.22 per Special Issue Share after taking into consideration the following:-

(a) the TERP of RM0.2811, calculated based on the 5D-VWAMP of DNeX Shares up to and including 17 June 2014 of RM0.3238, being the date immediately preceding to 18 June 2014;

(b) represents a discount of approximately RM0.0611 or 21.74% to the TERP of RM0.2811, subject to (c) below; and

(c) the minimum issue price allowable under the Act which is not less than the par value of DNeX Shares of RM0.20 each.

### 3.3 ESOS Subscription Price

Subject to any adjustments made under the By-Laws and pursuant to the Listing Requirements, the ESOS Subscription Price at which the Grantee is entitled to subscribe for each new DNeX Share shall be determined by the Board upon recommendation of the ESOS Committee and shall be fixed at the higher of the following:-

(a) the 5D-VWAMP of DNeX Shares immediately preceding the date of Offer, with a potential discount of not more than ten percent (10%) or such lower or higher limit in accordance with any prevailing guidelines, rules or regulations issued by Bursa Securities or any other relevant authorities as may be amended from time to time during the duration of the Proposed ESOS; or

(b) at the par value of DNeX Shares of RM0.20 each (or such other par value as may be permitted by the Act).

The ESOS Subscription Price as determined by the Board shall be conclusive and binding on the Grantees.

### 3.4 Exercise price of the Warrants

The Warrants will be issued at no cost to the following parties:-

(a) Entitled Shareholders and/or renouncee(s) pursuant to the Proposed Rights Issue; and

(b) investor(s) pursuant to the Proposed Special Issue and Proposed Acquisitions.

On 18 June 2014, being the date of the Initial Announcement, whereby the Board has fixed the exercise price of the Warrants at RM0.50 per Warrant after taking into consideration the following:-

(a) the TERP of RM0.2811 calculated based on the 5D-VWAMP of DNeX Shares up to and inclusive of 17 June 2014 of RM0.3238, being the date immediately preceding 18 June 2014.;

(b) the historical price movement of DNeX Shares;

(c) the future prospects of DNeX Group; and

(d) the exercise price shall not be lower than the par value of DNeX Shares of RM0.20 each.

Based on the exercise price of the Warrants at RM0.50 per Warrant, it represents a premium of approximately RM0.2189 or 77.87% to the TERP of RM0.2811, based on the 5D-VWAMP of DNeX Shares up to and including of 17 June 2014 of RM0.3238, being the last trading day prior to 18 June 2014.

## 4. RANKING OF THE RIGHTS SHARES, SPECIAL ISSUE SHARES, CONSIDERATION SHARES AND NEW SHARES ARISING FROM THE EXERCISE OF THE ESOS OPTIONS AND WARRANTS

### 4.1 Rights Shares

The Rights Shares shall, upon allotment and issuance, rank *pari passu* in all respects with the then existing DNeX Shares, save and except that the Rights Shares shall not be entitled to any dividends, rights, allotment and/ or any other forms of distributions ("**Distributions**") that may be declared, made or paid prior to the relevant date of the allotment and issuance of the Rights Shares.

### 4.2 Special Issue Shares

The Special Issue Shares shall, upon allotment and issuance, rank pari passu in all respects with the existing DNeX Shares, save and except that the Special Issue Shares shall not be entitled to any Distributions that may be declared, made or paid prior to the relevant date of the allotment and issuance of the Special Issue Shares. The Special Issue Shares are not entitled to the Rights Shares to be issued pursuant to Proposed Rights Issue.

### 4.3 Consideration Shares

The Consideration Shares shall, upon allotment and issuance, rank pari passu in all respects with the existing DNeX Shares, save and except that the Consideration Shares shall not be entitled to any Distributions that may be declared, made or paid prior to the relevant date of the allotment and issuance of the Consideration Shares. The Consideration Shares are not entitled to the Rights Shares to be issued pursuant to Proposed Rights Issue.

### 4.4 ESOS Options

The new DNeX Shares to be allotted and issued upon any exercise of the ESOS Options shall, upon allotment and issuance, rank *pari passu* in all respects with the existing issued and paid-up DNeX Shares, except that the new DNeX Shares so issued will not be entitled to any Distributions that may be declared, made or paid to Shareholders, the entitlement date of which is prior to the date of which the new DNeX Shares are credited into the CDS accounts of the Grantees.

The Grantees will not be entitled to any Distributions until and unless such Grantees exercise their ESOS Options into new DNeX Shares and such new DNeX Shares are credited into the Grantees' respective CDS accounts.

The new DNeX Shares will be subjected to all provisions of the memorandum and articles of association of DNeX in relation to their allotment and issuance, transfer, transmission or otherwise.

### 4.5 Warrants

Upon allotment and issuance, the new Shares to be issued arising from the exercise of the Warrants shall rank *pari passu* in all respects with the then existing DNeX Shares in issue, save and except that they shall not be entitled to any Distributions that may be declared, made or paid to the Shareholders, the entitlement date of which is prior to the date of allotment and issuance of the new Shares to be issued arising from the exercise of the Warrants.

## 5. INDICATIVE SALIENT TERMS OF THE WARRANTS

The indicative salient terms of the Warrants are set out below:-

| | | |
|---|---|---|
| Issuer | : | DNeX. |
| Number of Warrants | : | 711,396,809 Warrants. |
| Form and detachability | : | The Warrants will be issued in registered form and will immediately be detached from the Rights Shares, Special Issues Shares and Consideration Shares upon allotment and issuance. The Warrants will be separately traded on Bursa Securities. |
| Issue price of Warrants | : | (a) Proposed Rights Issue<br>• The Warrants will be issued free to the Entitled Shareholders and/or renouncee(s) who subscribe to the Rights Shares on the basis of three (3) Warrants for every three (3) Rights Shares.<br>(b) Proposed Special Issue<br>• The Warrants will be issued free to the investors to be identified at a later date on the basis of one (1) Warrant for every two (2) Special Issues Shares.<br>(c) Proposed Acquisitions<br>• The Warrants will be issued free to the Vendors on the basis of one (1) Warrant for every two (2) Consideration Shares. |

| | | |
|---|---|---|
| Board lot | : | For the purposes of trading on Bursa Securities, a board lot of Warrants will be in one hundred (100) units, or such other denomination as determined by Bursa Securities. |
| Exercise price | : | RM0.50. |
| Exercise period | : | The Warrants may be exercised at any time on and including the date of issuance and ending on the close of business at 5.00 p.m. on the business day immediately preceding the fifth ($5^{th}$) anniversary of the date of issuance.<br><br>Any Warrants not exercised during the exercise period will thereafter lapse and cease to be valid. |
| Exercise rights | : | Each Warrant carries the entitlement, at any time during the exercise period, to subscribe for one (1) new DNeX Share at the exercise price at any time during the exercise period, subject to adjustments in accordance with the provisions of the Deed Poll. |
| Rights of the Warrant holders | : | The Warrants do not entitle the registered holders thereof to any dividends, rights, allotments and/or any other form of Distributions that may be declared, made or paid, the entitlement date of which is prior to the date of allotment and issuance of the new DNeX Shares to be issued arising from the exercise of the Warrants. The Warrants do not entitle the registered holders thereof to any voting rights in any general meeting of the Company until and unless such holders of the Warrants exercise their Warrants for new DNeX Shares. |
| Adjustments of exercise price and/or number of unexercised Warrants | : | The exercise price and/or the number of unexercised Warrants may be subject to adjustments in the event of any alteration to the share capital of the Company at any time during the tenure of the Warrants, whether by way of, amongst others, rights issue, bonus issue, consolidation of shares, subdivision of shares or reduction of capital, in accordance with the provisions of the Deed Poll. |
| Rights in the event of winding up, liquidation, compromise and/or arrangement | : | Where a resolution has been passed for a members' voluntary winding up of the Company, or where there is a compromise or arrangement, whether or not for the purpose of or in connection with a scheme for the reconstruction of the Company or the amalgamation of the Company with one or more companies, then:-<br><br>(a) if such winding up, compromise or scheme of arrangement in which the Warrant holders, or some person designated by them for such purpose by special resolution, are to be party, the terms of such winding up, compromise or scheme of arrangement shall be binding on all the Warrant holders; and<br><br>(b) in any other case, every Warrant holder is entitled within six (6) weeks after the passing of such resolution for a members' voluntary winding up of the Company or within six (6) weeks from the granting of the court order approving the compromise or arrangement, by the irrevocable surrender of his Warrants to the Company by |

| | | |
|---|---|---|
| | | submitting the exercise form duly completed, authorising the debiting of his Warrants, together with payment of the relevant exercise price, to elect to be treated as if the Warrant holders had immediately prior to the commencement of such winding up, compromise or arrangement exercised the exercise rights represented by such Warrants to the extent specified in the exercise form and be entitled to receive out of the assets of the Company which would be available in liquidation if he had on such date been the holder of the new DNeX Shares to which he would have become entitled pursuant to such exercise and the liquidator of the Company, must give effect to such election accordingly. All exercise rights which have not been exercised within six (6) weeks of either the passing of such resolution or granting of the court order shall lapse and the Warrants will cease to be valid for any purpose.<br><br>If the Company is wound up (other than by way of a member's voluntary winding up), all exercise rights which have not been exercised prior to the date of commencement of the winding up shall cease to be valid for any purpose. |
| Transferability | : | The Warrants shall be transferable in the manner provided under the Central Depositories Act and the Rules of Bursa Depository. |
| Deed Poll | : | The Warrants will be constituted under a Deed Poll to be executed by the Company. |
| Governing Law | : | The Warrants and the Deed Poll shall be governed by the laws of Malaysia. |

## 6. UTILISATION OF PROCEEDS

### 6.1 Proposed Rights Issue

Based on the issue price of RM0.21 per Rights Share which was fixed by the Board and announced on 18 June 2014 in the Initial Announcement, the gross proceeds and the expected utilisation of the proceeds to be raised from the Proposed Rights Issue are as follows:-

| Proposed utilisation of proceeds | Note | RM'000 | Estimated timeframe for utilisation from date of receipt |
|---|---|---|---|
| Proposed Acquisitions | (a) | 73,000 | Immediate |
| Working capital | (b) | 19,881 | Within twenty-four (24) months |
| Estimated expenses for the Proposals | (c) | 4,800 | Within six (6) months |
| | | **97,681** | |

Notes:-

(a) *RM97.68 million of the proceeds from the Proposed Rights Issue is intended to be utilised for the remaining cash consideration of RM73 million in relation to the Proposed Acquisitions as set out in Section 2.3 of this Circular. Please note that the Cash Consideration for the Proposed Acquisitions is RM83 million, of which RM10 million had been paid as deposit by DNeX to the Vendors on 18 June 2014, being the date of the SSA.*

(b) *Approximately RM19.88 million is proposed to be utilised for which include but are not limited to the funding of DNeX Group's day-to-day operations or projects as follows:-*

| | RM'000[i] |
|---|---|
| Financing for DNeX Group's future investments/ projects [ii] | 16,881 |
| Payment of staff salaries | 3,000 |
| **Total working capital** | **19,881** |

(i) *The actual utilisation of each component of working capital may differ subject to the operational requirements at the time of utilisation.*

(ii) *The proceeds of approximately RM16.88 million will be utilised for the potential investment project in both ICT and energy businesses. The two core ICT businesses are trade facilitation and e-commerce as well as solution integration while the three core energy businesses are O&G product and services, power and upstream E&P. Please refer to Section 8.5 of this Circular for more information.*

*As at the date of this Circular, DNeX has identified one potential investment in an upstream O&G asset which is currently under negotiation. Should there be any changes in the said identified potential investment or should there be no further suitable investments identified by DNeX Group or should there be any remaining proceeds pursuant to the potential investment, it will be utilised to further scale up the OGPC Group's business in order to generate additional revenue streams. Options include creating new business (i.e. chemical, valves testing and servicing) and building in-house fabrication capability.*

(c) *The estimated expenses of RM4.8 million in relation to the Proposals consists of the professional fees, fees payable to the relevant authorities, underwriting commission, placement agent's commission, printing costs of circulars and abridged prospectuses as well as advertising and miscellaneous expenses. In any event, if the actual expenses are higher than the amount budgeted, the deficit will be funded out of the portion allocated for working capital requirements. Conversely, if the actual expenses are lower than the amount budgeted, the excess shall be utilised for working capital requirements.*

| | RM'000 |
|---|---|
| Estimated professional fees | 1,800 |
| Underwriting and placement commission | 2,200 |
| Fees payable to the authorities | 600 |
| Miscellaneous expenses and contingencies | 200 |
| **Total estimated expenses for the Proposals** | **4,800** |

The amount of proceeds from the exercise of the Warrants would depend on the actual number of Warrants exercised which will be used to finance future working capital requirements of the Group. For illustrative purposes, the Company will raise approximately RM232.57 million if the Warrants are fully exercised at the exercise price of RM0.50 per Warrant which was fixed by the Board and announced on 18 June 2014 in the Initial Announcement.

## 6.2 Proposed Special Issue

Based on the issue price of RM0.22 per Special Issue Share which was fixed by the Board and announced on 18 June 2014 in the Initial Announcement, the gross proceeds and the expected utilisation of the proceeds to be raised from the Proposed Special Issue are as follows:-

| Proposed utilisation of proceeds | Note | RM'000 | Estimated timeframe for utilisation from date of receipt |
|---|---|---|---|
| Future investment/projects | (a) | 28,600 | Within twenty-four (24) months |
| **Total** | | **28,600** | |

Note:-

(a) *The proceeds of approximately RM28.6 million will be utilised for the potential investment in an upstream O&G asset, which is currently under negotiation. Please refer to Section 6.1(b)(ii) of this Circular for more information.*

The amount of proceeds from the exercise of the Warrants would depend on the actual number of Warrants exercised, which will be used to finance future working capital requirements of the Group. For illustrative purposes, the Company will raise approximately RM32.50 million if the Warrants are fully exercised at the exercise price of RM0.50 per Warrant which was fixed by the Board and announced on 18 June 2014 in the Initial Announcement.

### 6.3 Proposed ESOS

The actual amount of proceeds to be raised from the Proposed ESOS will depend on the number of ESOS Options granted and exercised at the relevant point of time and the ESOS Subscription Price payable upon the exercise of the ESOS Options.

The proceeds arising from the exercise of the ESOS Options will be utilised for the working capital requirements of DNeX Group, as and when received, within the duration of the ESOS. As such, the exact timeframe for utilisation of the proceeds is not determinable at this juncture.

The proceeds for working capital will be utilised to finance the Group's day-to-day operations. These expenses include, amongst others, sales and marketing expenses, operating expenses, staff costs and general expenses.

### 6.4 Proposed Acquisitions

There will be no proceeds to be received by the Company pursuant to the Proposed Acquisitions.

The amount of proceeds from the exercise of the Warrants would depend on the actual number of Warrants exercised, which will be used to finance future working capital requirements of the Group. For illustrative purposes, the Company will raise approximately RM90.63 million if the Warrants are fully exercised at the exercise price of RM0.50 per Warrant which was fixed by the Board and announced on 18 June 2014 in the Initial Announcement.

## 7. RATIONALE FOR THE PROPOSALS

### 7.1 Proposed Rights Issue

The Proposed Rights Issue is undertaken to raise funds which will be utilised to satisfy the OGPC Group Purchase Consideration for the Proposed Acquisitions. The Board proposes to fund the Proposed Acquisitions via the Proposed Rights Issue as opposed to via bank borrowings in order to avoid substantial interest expenses.

In addition, the Proposed Rights Issue will at the same time increase shareholders' funds and hence reduce gearing levels of the Group.

After due consideration of various methods of fund raising, the Board is of the opinion that raising funds by way of the Proposed Rights Issue to fund the Proposed Acquisitions as set out in Section 2.3 of this Circular is most suitable due to the following reasons:-

(a) the Proposed Rights Issue will provide the Shareholders with an opportunity to further increase their equity participation in the Company via the issuance of new DNeX Shares at a potential discount to the prevailing market price, without diluting the existing Shareholders' interest, assuming that all Entitled Shareholders fully subscribe for their respective entitlements pursuant to the Proposed Rights Issue; and

(b) the Proposed Rights Issue will increase the Group's shareholders' funds, strengthen the Group's capital base, and enhance the Group's cash flow position.

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The Warrants which are attached to the Rights Shares are intended to provide an added incentive to the Entitled Shareholders to subscribe for the Rights Shares. The Warrants will allow the Entitled Shareholders to increase their equity participation in the Company at a predetermined price over the tenure of the Warrants. In addition, upon exercise of the Warrants (if any), the Company will obtain additional proceeds to finance future working capital requirements, while strengthening DNeX's capital base, improving gearing levels as well as potentially increasing the liquidity of DNeX Shares.

### 7.2 Proposed Special Issue

For information purpose, the Proposed Rights Issue will raise approximately RM97 millon which is sufficient to satisfy the payment of the remaining cash balance of RM73 million to the Vendors pursuant to the Proposed Acquisitions with remaining cash balance payable of RM24 million.

The Proposed Special Issue in which 130,000,000 Special Issue Shares will be issued to the selected Bumiputera investors is meant to meet the 12.5% Bumiputera's equity condition imposed by the relevant authorities as the Proposals will result in a Significant Change in Business Direction of DNeX. For information purpose, the Proposed Special Issue will raise approximately RM29 million which may be used for working capital purposes or any future investment to be identified by DNeX.

Hence, the main objective of the Proposed Special Issue is meant for meeting the 12.5% Bumiputera's equity condition imposed by the relevant authorities.

### 7.3 Proposed Acquisitions

DNeX Group is principally involved in ICT business.

The acquiree company, OGPC is principally engaged in the provision of engineering and technical support services for the O&G industry, while OGPCOG is principally engaged in the sale of O&G related equipment, provision of engineering and technical support services for the O&G industry.

The rationale of the Proposed Acquisitions are as follows:-

**(a) Diversification into O&G sector**

The Board has made the decision to diversify into O&G sector as compared to the other sectors as the Board is of the view that, the O&G sector will be favourable in the long term despite the decline of the global oil price starting from June 2014 till date.

DNeX's strategic diversification into O&G sector is in line with the Group's stated objective to reposition the Group strategically to create long-term sustainable growth. Several early moves had been made from end of 2014 in creating critical building blocks to develop and acquire appropriate skills in ensuring the two (2) pillars of DNeX being managed properly.

Further, there are significant opportunities in the O&G sector, which is a global business that drives national economies. In Malaysia, the sector contributes some one fifth of the national gross domestic product over the past decade. The long-term potential of the regional energy sector is expected to remain robust as it is a key enabler to economic growth of the region.

- For its existing ICT business, DNeX will continue to expand the ICT business by entering into more partnership and via venturing new potential ICT businesses which will further contribute positively to the revenue of DNeX Group.

- For the new energy business, DNeX will diversify into this business through strategic acquisitions and long-term partnerships. With a know-how heavy and asset light strategy, DNeX will work on integrating and developing a commercially sustainable energy business.

- On the energy front, Encik Zainal was appointed as the Group Managing Director of the Company effective from 19 June 2014. He is an accomplished industry leader with a wealth of experience in managing businesses and operations in high-technology and capital-intensive upstream O&G industry and power generation utilities. Several early moves made during the year 2014 are critical building blocks to develop a business of scale includes putting in place a team of competencies in OFSE industry, that will propel profitable growth for the Group's energy business.

The Proposed Acquisitions would provide DNeX with a new core business in addition to its current ICT business. At present, it is the intention of DNeX to continue pursuing its current business in ICT whilst venturing into the O&G industry.

**(b) Rebranding exercise of the Company and Group in the ICT industry**

On 20 May 2014, the Company announced its change of name from TIME Engineering Berhad to DNeX as part of its objective to better reflect the new corporate identity of the Company and Group under its rebranding exercise in the ICT industry.

The Group's current rebranding exercise focuses on DNeX's corporate positioning as a preferred technology partner. This is aligned with the Group's aspirations within all areas of its current and future core business and services including those within the ICT and energy sectors.

Building on the OGPC Group's deep experience and understanding of the O&G industry gained over the past twenty years, DNeX Group's range of managed solutions will cover the full ICT spectrum to support the O&G industry with high-performance communications and technology solutions that help clients maximise return on investment and realise ongoing efficiencies.

DNeX Group has the expertise in ICT project management, network solutions and systems implementation & integration. Currently, OGPC Group is the appointed vendor for a niche Petroleum Supply Chain with Advanced Process Control solutions. In relation to this, the DNeX's existing ICT solution team is capable in managing the implementation and system integration for this system. Additionally, DNeX had also been in talks with a specialised ICT solution service provider for assets management and life extension in the energy industry, and expect to be able to penetrate the market at the same time diversify product offering through OGPC Group's sales and distribution network.

It is the Group's intended rebranding exercise, post acquisition stage, for DNeX to deliver core ICT services/solutions to the O&G clients covering upstream to downstream operations.

The Proposed Acquisitions is in line with the Company and Group's intended rebranding exercise because, if the Proposed Acquisitions is successful, the OGPC Group will bring upon added technology leadership and new business platforms in the O&G services sector, which will facilitate in the Company's commitment to increase its Shareholders' value.

(c) **OGPC Group to contribute positively to DNeX Group**

Upon completion of the Proposed Acquisitions, OGPC will become a wholly-owned subsidiary of DNeX Group, allowing DNeX Group to consolidate the whole financial results of the OGPC Group.

The Proposed Acquisitions is expected to contribute positively to DNeX Group in the future, thus enhancing Shareholders' value in the medium to long term within five (5) to ten (10) years.

Based on the Accountants' Report on the OGPC Group for the FYE 2014, the OGPC Group's audited PAT and NA are at RM18.89 million and RM73.38 million respectively.

In addition, the Board is of the view that the issuance of the Consideration Shares to partially satisfy the Purchase Consideration is the most appropriate avenue as it will lessen the cash outlay by DNeX Group, which can be channelled towards operations and other working capital purposes. Also, the issuance of the Consideration Shares will strengthen the financial position of DNeX Group.

### 7.4 Proposed ESOS

The Proposed ESOS is designed to:-

(a) motivate and encourage the employees of the Company to work towards a greater level of commitment, dedication, loyalty and to drive enhanced productivity vis-a-vis achieving the Group's pre-determined performance conditions or performance targets;

(b) to attract, reward and retain employees whose services are vital to the businesses, continued growth and future expansion of the Group;

(c) allow the Eligible Persons to directly participate in the equity of the Company and motivate them to contribute to the future growth of DNeX Group via a greater sense of belonging to the Group;

(d) reward the selected employees by allowing them to participate in the Company's profitability and eventually realise capital gains arising from any appreciation in the value of the DNeX Shares; and

(e) align the interest of the senior management of the Group to drive long term financial performance and Shareholders' value enhancement via direct participation in the equity of the Company.

## 8. INDUSTRY OUTLOOK AND FUTURE PROSPECTS

### 8.1 General outlook of Malaysian economy

The global economy continued to expand at a moderate pace in the third quarter of 2015, with diverging growth momentum across economies. While the USA and the UK economies registered moderate growth, economic activity in the euro area and Japan improved at a more gradual pace. In Asia, growth was supported by the continued expansion of domestic demand amid weak export performance. Against a backdrop of moderate growth and low inflation, several major and regional central banks lowered policy rates. In addition, a number of economies in the region have also announced fiscal measures to support domestic demand activity.

The Malaysian economy expanded by 4.7% in the third quarter of 2015. The Malaysian economy recorded a growth of 4.7% in the third quarter of 2015 (Second quarter ("**2Q**") 2015: 4.9%), supported mainly by private sector demand. On the supply side, all economic sectors continued to expand during the quarter. On a quarter-on quarter seasonally-adjusted basis, the economy grew by 0.7% (2Q 2015: 1.1%).

The private sector continued to be the key driver of growth during the quarter. Private investment grew by 5.5% (2Q 2015: 3.9%), driven by capital spending in the manufacturing and services sectors. Private consumption expanded at a more moderate rate of 4.1% (2Q 2015: 6.4%) as households continued to adjust to the implementation of the GST. Public investment turned around to record a positive growth due to the improvement in spending on fixed assets by both the Federal Government and public enterprises. Meanwhile, public consumption growth moderated to 3.5% (2Q 2015: 6.8%) following the slower growth in both emoluments and supplies and services expenditure.

On the supply side, all economic sectors continued to expand during the quarter. Growth was led by the construction and manufacturing sectors. Construction sector growth improved due mainly to a faster expansion in the civil engineering and specialised construction activities sub-sectors. Similarly, the manufacturing sector registered higher growth, supported in particular by an improvement in the export oriented industries. The services sector registered lower growth due to a moderation in household spending and slower capital market activity. The mining and agriculture sectors expanded at a slower pace due to a moderation in crude oil and palm oil production, respectively.

Inflation, as measured by the annual change in the Consumer Price Index (CPI), increased to 3.0% in the third quarter of 2015 (2Q 2015: 2.2%) largely reflecting the higher inflation in the *food and non-alcoholic beverages* category amid shortages in supplies arising from adverse weather conditions. The *transport* category also contributed to the increase in inflation following the higher domestic fuel prices during the quarter.

The trade surplus amounted to RM22.2 billion in the third quarter of 2015 (2Q 2015: RM20.4 billion). Gross exports turned around to register an expansion of 5.5% (2Q 2015: -3.7%), supported mainly by the broad-based expansion in manufactured exports. Meanwhile, gross imports grew by 2.9% (2Q 2015: -5.2%), reflecting an improvement in most major import categories.

Going forward, global growth is expected to remain moderate. While the major advanced economies continue to improve, the pace of recovery will be modest. In Asia, domestic demand is expected to continue to support growth. Downside risks to global growth remain high arising from the moderating growth momentum in a number of major economies, uncertainty surrounding energy and commodity prices and possible disorderly market conditions arising from policy shifts in major economies.

While downside risks to growth remain, the Malaysian economy is expected to expand within the region of 4.5 - 5.5% this year and 4 - 5% in 2016. As a result of structural adjustments that have been steadily undertaken over the years, the economy is now supported by diversifi ed sources of growth. With the external sector performance expected to be modest, domestic demand will continue to be the main driver of growth, supported mainly by the private sector activity. In addition, the flexible exchange rate, deep and more mature financial markets and solid financial institutions will support this trend and ensure that shocks such as volatile capital flows are well intermediated, therefore minimising spillovers to the real economy.

*(Source: Economic and financial developments in Malaysia in the Third Quarter of 2015, quarterly bulletin, third quarter 2015, BNM)*

## 8.2 Outlook of the O&G industry in Malaysia

The outlook of the OFSE industry in tandem with the O&G industry remains positive in long term. In 2014, the O&G industry has seen the start-up of Tapis Enhanced Oil Recovery ("**EOR**") project, Malaysia's first large-scale EOR project, the start-up of oil production from a deepwater development namely the Gumusut-Kakap floating platform, and the start-up of natural gas production from Damar field which increases the crude oil supply in Malaysia. Nonetheless, growth is restrained by the slumping crude oil prices which begun around second half of 2014. On the global front, increasing crude oil production from USA coupled with underperforming demand from Europe and Japan have resulted in crude oil oversupply and accordingly, weighted on the pricing of the said commodity.

In Malaysia, PETRONAS expects oil prices to remain significantly lower than 2014 with an average price of USD55 per barrel for 2015. Accordingly, PETRONAS has announced a cut in its operating expenditure by 24%. Therefore, demand for products and services from the OFSE industry could be affected in the short term (2015 to 2016). Nonetheless, the impact could be offset by an increase in PETRONAS capital expenditure for the overall O&G industry to RM70 billion in 2015 as compared to RM60 billion in 2014. Despite the current bearish scenario, PETRONAS expects the oil prices to recover in the medium-to-long term as market adjusts its parity for the mismatch in supply and demand.

On a positive note, demand for O&G is projected to be sustainable in long run. Organisation of the Petroleum Exporting Countries ("**OPEC**") has projected the oil demand to increase by over 18 million barrels per day during the period of 2015-2040, reaching 111.1 million barrels per day by 2040. This indicates the underlying demand for O&G as an energy source in the global market. In addition, the long term prospect of the O&G industry is supported by an increasing global population and urbanisation that that would drive the energy demand. The United Nations ("**UN**") has projected the global population to grow from 7.2 billion in 2014 to reach 9.6 billion by 2050, of which urban population would increase from 54% to 66% during the same period. Continuous demand for energy sources would contribute to a sustainable O&G industry, and the OFSE industry may benefit from the need of equipment replacement within the O&G industry in long run.

Moving forward the O&G industry is projected to register a compounded annual growth rate ("**CAGR**") of 1.5% from 2014 to 2019. Amid a cut on PETRONAS' operating expenditure, the continuous investment in the O&G industry particularly from the entry point projects ("**EPPs**") under the Economic Transformation Programme ("**ETP**") is expected to provide the impetus for the sustainable growth in the industry.

*(Source: IMRR)*

We acknowledge that we are not spared from the impact of a slowdown in the global economy, including declining commodity prices, particularly crude oil, palm oil and rubber, depreciation of the ringgit and slower growth in major advanced economies.

The Government's decision in implementing GST is right, more so as crude oil prices have fallen more than 50% from a level of USD100 per barrel in 2014. The fact is, PETRONAS contributes a certain amount of dividend to Treasury every year. The amount of dividend is dependent on global crude oil prices. For example, when crude oil prices averaged USD100 per barrel in 2014, revenue from PETRONAS dividend and petroleum tax revenue totalled RM62 billion. The scenario, however, changed when crude oil prices declined to around USD50 per barrel. The contribution from PETRONAS and oil-related sectors will be RM44 billion in 2015. As oil prices are expected to remain low in 2016, oil-related revenue is estimated at RM31.7 billion, a decline in Goverment revenue of more than RM30 billion. As announced several times, the rakyat can be reassured that revenue from GST collection will be returned to benefit the rakyat, in addition we will also clarify how GST will be spent. This is the real intention of the Government and there is no hidden agenda.The situation has changed.

This intention must be balanced with the reality of the Government's financial position due to the uncertainty in global crude oil prices as I elaborated earlier. However, due to the reduction in oil-related revenue, the collection from GST has helped to cover a major portion of the shortfall.

As part of Government's Domestic Investment Initiative, an estimated investment of RM18 billion in 2016 has been set aside for the Refinery and Petrochemical Integrated Development Project (RAPID) Complex in Pengerang, Johor.

Additionally with regards to the oil and gas sector, in order to promote the development of supporting services activities, it is proposed that the relief from payment of GST be on the reimportation of equipment such as equipment used in the upstream oil and gas industry for oil and floating platforms that are temporarily exported for the purpose of rental and leasing.

*(Source: Excerpts from Budget Speech 2016: Ministry of Finance Malaysia's website)*

## 8.3 Outlook of the ICT industry in Malaysia

In order to achieve an 18.2% or approximately RM324.9 billion ICT contribution to GDP by the year 2020, initiatives to be undertaken during the Eleventh Malaysia Plan period include the development of technology focus areas, infusion of ICT in other sectors and building the support ecosystem. It is targeted that the ICT industry registers an annual average growth rate of 10.7% and Malaysia to maintain its position as a net exporter of ICT products and services valued at RM56.8 billion in 2020. To ensure the shift from supply to demand, consumption to production and low to high knowledge-add is sustainable, nine strategies have been identified in the Eleventh Malaysia Plan.

*(Source: Eleventh Malaysia Plan, 2016-2020: Way Forward, Driving ICT in the Knowledge Economy, Strategy Paper 15, Economic Planning Unit, Prime Minister's Department)*

## 8.4 Future prospects of the OGPC Group

Moving forward, the OGPC Group expects to derive its future revenue from supplying O&G equipment and parts as well as providing technical support services to the O&G, petrochemical, power and general industry.

In addition to a dedicated workforce of skilled technical personnel to provide its customers with reliable and efficient services, the OGPC Group will aim to expand its product range, improve its technical capabilities and maintain its quality operational standards in order to continue providing excellent service to its clients. The OGPC Group has plans to expand the product range that could be offered to its customers in the future by establishing working relationships with new principals or suppliers for products currently not being offered by the OGPC Group. In addition, the OGPC Group has the intention to explore further opportunity with its existing principals to increase the number and types of products that the OGPC Group currently represents, for example, to offer different types or models of valves or pumps.

It is anticipated that the revenue arising from new project will be reduced in the short term in light of the current market conditions. In this situation, O&G companies, including PETRONAS, are facing uncertainties in the current O&G industry outlook and are slowing down their investment in capital intensive projects, i.e. new greenfield projects. However, these O&G companies will capitalise this opportunity to undertake, where necessary, MRO work for existing plants or projects. In addition, these O&G companies will also be reviewing their existing plants or projects with a view to improve efficiencies and minimise cost or wastage, which include upgrading their existing process or system, where necessary. All the above are done to maximise returns from existing plants or projects.

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The OGPC Group is well positioned to assist its customers in the area of MRO and also the improvements and/or upgrades as the OGPC Group has a wide range of products to offer to its customers. With the reduction in new projects in the O&G industry, the OGPC Group's revenue and profitability is expected to be affected in the next one (1) to three (3) years with brighter prospects in the longer term.

*(Source: Management of the OGPC Group)*

According to the IMRR, O&G industry is projected to register a CAGR of 1.5% from 2014 to 2019. The O&G industry is expected to continue attracting investment despite the volatility surrounding oil prices albeit most companies would exercise greater caution in their spending. Also, planned long-term investments are less likely to be affected by short-term volatility. In addition, the investment in the O&G industry particularly from the EPPs under the ETP is expected to provide the impetus for the continuing growth in the O&G industry.

The Board, after having considered all the relevant aspects, including the aforementioned O&G industry outlook as well as prospects of the OGPC Group as set out in Section 8.2 above and this Section 8.4 respectively, is of the opinion that the Proposed Acquisitions is expected to contribute positively to the future earnings of the Company and to enhance Shareholders' value in the medium to long term.

*(Source: Board)*

**8.5 Future prospects of DNeX Group**

On November 2013, Censof emerged as the new controlling shareholder in DNeX with 45.03% equity interest in DNeX upon completion of the conditional share sale and purchase agreement, which was entered into between Censof and Khazanah Nasional Berhad on 12 September 2013 to acquire 349,112,731 DNeX Shares.

For information purpose, as at the LPD, Censof owns 304,112,731 DNeX Shares, representing 39.23% equity interest in DNeX. Please refer to Section 10.2 of this Circular for more information on the Substantial Shareholders' shareholdings.

The principal activity of Censof is that of investment holding whilst the principal activities of its subsidiaries, amongst others, are as follows:-

(a) Design, development, implementation and marketing of financial related software and services;

(b) Providing services for software development, acting as a service provider for financial applications and electronic payments;

(c) Providing ICT business solutions, corporate ICT training and management courses; and

(d) Providing investment management solutions and software.

The acquisition of DNeX by Censof presents a good and rare opportunity for Censof to not only expand its ICT business but also to leverage on DNeX's resources and infrastructure to create strategic benefits, which Censof believes will bring both Censof Group and DNeX Group to the next level of performance.

Moving forward, DNeX Group will be focusing on two industries which are, (a) existing ICT business and (b) new energy business.

**(a) <u>Existing ICT business</u>**

For its existing ICT business, DNeX will continue to expand the ICT business by entering into a number of strategic partnerships and expanding the range of ICT products which will further contribute positively to the revenue of DNeX Group.

The main services provided by DNeX Group's ICT division are as follows:-

**1. Trade facilitation and e-commerce**

(i) National Single Window Trade Facilitation System ("**NSW Trade Facilitation System**")

- DNeX's subsidiary, Dagang Net Technologies Sdn Bhd ("**Dagang Net**") was appointed to incorporate its value added network with the Sistem Maklumat Kastam ("**SMK**"), which was established in 1995 as "SMK-Dagang*Net". In the same year, the first direct interface between both systems was implemented in the first Kedai National Electronic Data Interchange in Port Klang, which included successful pioneering efforts to commercially use e-Government services, smartcards and electronic fund transfers to enhance the effectiveness, efficiency and productivity of the SMK in Port Klang.

- In 2004, the SMK-Dagang*Net's automated trade facilitation system was expanded to East Malaysia (Sabah & Sarawak) and implemented at all the Royal Malaysian Customs Department ("**RMCD**") entry points which was in line with RMCD's strategy to accelerate SMK's national rollout. During that period, the concept of trade facilitation had already been recognised as the engine of growth for Malaysia to improve its crossborder transactions.

- In 2007, National Single Window (**"NSW"**), a national project initiated by the Government, lead by the Ministry of International Trade and Industry, was introduced to implement an intelligent ICT-environment in Malaysia to handle all data traffic concerning import and export, to reduce substantial administrative burdens for the entrepreneurs and to enhance Government services' quality in this field.

- In 2009, Dagang Net was awarded the concession by the Government under the terms of the agreement for the design, development, operation and maintenance of NSW Trade Facilitation System. This was to serve as an integrated gateway to enable trade-related information and documents to be submitted by different parties including exporters, importers, customs brokers, freight forwarders, shipping agents and banks only once at a single entry point. The need to deploy a new NSW in Malaysia has become especially imperative as an enabler for the Association of South East Asian Nations ("**ASEAN**") Single Window ("**ASW**") initiative and to improve Malaysian's overall ranking in trading across border. Malaysia had geared up preparations for connection to the ASW initiative of linking all the single windows in ASEAN and became fully operational by 2012.

- Dagang Net's concession granted by the Government under the terms of the agreement for NSW, had a contract extension for two (2) years until 24 September 2016. Pursuant to the extension, Dagang Net continues to be the sole service provider of Malaysia's NSW for trade facilitation and provide Dagang Net with the opportunity to further enhance its market presence, particularly to continue introducing new offerings beyond the NSW mandatory services and add value to the business efficiency of the trading and logistics community.

- The NSW Trade Facilitation System is an electronic approach to facilitate trade and increase efficiency of the Government's delivery system. It involves five major areas of coordinated processing of information and data. These areas are as follows:-

| | Major areas | Services |
|---|---|---|
| 1. | Customs declaration ("**eDeclare**") | For customs declaration. |
| 2. | Permit issuing agencies/other Government agencies ("**ePermit**") | For permit application system. |
| 3. | Banking ("**ePayment**") | For customs duty payment. |
| 4. | Transport community ("**eManifest**") | For cargo manifest and vessel information. |
| 5. | Trading community ("**ePCO**") | For the issuance of certificate of origin. |

(ii) National single window service provider (**"NSW Service Provider"**)

- As announced by DNeX on 18 August 2015, Dagang Net was appointed by the RMCD to design, develop, install, configure, test, commission, and provisioning of support and maintenance services for the trade facilitation portal for RMCD. The appointment of Dagang Net as the NSW Service Provider is for a continuous tenure and shall commence from the date of issuance of the Certificate to Operate ("**CTO**") by the Government which is renewable every two (2) years.

- DNeX as the appointed NSW Service Provider provides services which include the services as stated in Section 8.5(a)(1)(i) above for trade facilitation to plan, design, implement and operate.

(iii) Mytrade2cash

- Mytrade2cash is a business-to-business ("**B2B**") platform that provides simplified application process to facilitate trade finance which enables information related to international trade, customs clearance, cash flow, credit insurance and financing services to be shared between the exporters and financial institutions.

- By streamlining, simplifying and improving access to trade finance, DNeX connects the exporters and financial institutions electronically which improves the small and medium enterprises' access to trade finance, speeding up the Malaysian exporters' access to cash/working capital.

- Currently, DNeX operates as Malaysia's first, largest and most established e-transaction exchange. The exchange serves over 13,000 users in the trade facilitation and logistics fraternity with more than 50 million electronic transactions and RM1.8 billion worth of customs duty payment are transacted annually through its single window platform.

(iv) MyCargo2u

- Mycargo2u is a B2B platform that empowers logistics players with a GST ready comprehensive software tomanage cargo and trade documentation efficiently.

- This is an integrated solution that enables users to save time and skip unnecessary duplication of data entry efforts and simplifies trade documentation submissions to the relevant authorities and regulators, as well as make tracking and tracing of cargo and its documentations.

(v) Global Halal Exchange

- Global Halal Exchange is an eMarketplace which serves as an electronic B2B marketplace connecting traders within the Halal industry across theworld and facilitates buyer-seller transactions for Halal goods and services.

**2. Solution integration**

(i) ICT solution

- DNeX specialises in full project management, from design and build right through to installation and commissioning.

- The range of ICT solution services provided by DNeX are mainly in the procurement, delivery, installation, testing and commissioning of ICT equipment in large and nationwide ICT rollout to its customers while its maintenance coverage encompasses technical support via on-site support from DNeX's technicians.

- DNeX's ICT management and consultation approach emphasizes a standard operation procedure that includes designing, developing, improving, adopting and maintaining infrastructure to suit the customers' needs.

(ii) Cyber security

- DNeX provides a comprehensive suite of enterprise security solution which helps the customers to build a reliable and resilient security defence to ensure the customers' information assets are secured.

DNeX's existing ICT business has a strong project management and system integration strength. The ICT team will leverage on the OGPC Group's O&G network to expand its business by tapping into the O&G industry i.e. software and ICT solutions, where possible.

DNeX has expertise in ICT project management, network solutions and systems implementation and integration. As at the LPD, the OGPC Group is the appointed vendor for Aspentech software, which is a niche Petroleum Supply Chain with Advanced Process Control solutions. The DNeX ICT solution team is capable in managing implementation and system integration for this system.

In addition, DNeX has also been in talks with a specialised ICT solution service provider for assets management and life extension in the energy industry and expect to be able to penetrate the market at the same time diversify product offering through the OGPC Group's sales & distribution network.

**(b) <u>New energy business</u>**

DNeX Group will diversify into the energy business (i.e. O&G, power, petrochemical and general industries) through strategic acquisitions and/or long-term partnerships. With a know-how heavy and asset light strategy, DNeX Group will work on integrating and developing a commercially sustainable energy business. The relevant businesses in the energy business, which DNeX Group will venture into are as follows:-

**1. O&G product and services**

The completion of Proposed Acquisitions will see the OGPC Group becoming part of DNeX Group, which will contribute to a new stream of revenue for DNeX Group, through sale of O&G related equipment and provision of engineering and technical support services for O&G industry. Essentially, OGPC Group supplies packaged O&G products and provides support services to clients in the O&G industry.

The OGPC Group has a wide network of clientele in the O&G industry. Meanwhile, DNeX Group'sexisting ICT business has a strong project management and system integration strength. Hence, DNeX Group's existing ICT business is able to leverage on the OGPC Group's network of clients in the O&G industry by providing software and ICT solutions. DNeX, as a service provider, brings high quality of expertise, fit for purpose and cost-effective solutions to the O&G industry, which can provide added value to the OGPC Group's clients.

Since the OGPC Group has been providing technical support services to the O&G industry and since DNeX Oilfield is venturing into such business, the experience and expertise of the OGPC Group can be applied by DNeX Oilfield. Also, the OGPC Group provides equipment to TNB with regards to power generation. This knowledge of equipment in regards to the power industry will be beneficial to FESB, which will be involved in the designing, building and operations of small scale and captive market power plants in the Asian region.

2. **Power industry**

Design, build and operate small scale and captive market power plants not exceeding 300MW in a safe and reliable manner. DNeX also strives to become a niche reliable regional independent power plant and energy transmission company via its subsidiary FESB. FESB is currently pursuing opportunities in Malaysia, Bangladesh and Indonesia.

3. **Upstream E&P**

With experienced leadership and a team with proven commercial expertise, DNeX will employ its expertise to own brownfield producing assets in proven hydrocarbon province with transparent fiscal locations via its wholly-owned subsidiary, DNeX Petroleum Sdn Bhd ("**DNeX Petroleum**").

As announced to Bursa Securities on 7 September 2015, DNeX Petroleum had entered into a share subscription agreement with Ping Ping Petroleum Limited ("**Ping**") to subscribe for new ordinary shares of USD0.001 each in Ping, which represent 30% of the enlarged issued share capital of Ping, for a total consideration of USD10.0 million. Through the share subscription agreement, DNeX Petroleum is tapping into the reserves and resources of Ping's direct wholly-owned subsidiary, Ping Petroleum UK Limited, recent agreements for the acquisition of the Anasuria Cluster (as defined herein) which comprises a geographically focused package of operated producing fields and associated infrastructure of the following:

(i) 100% interest in the Guillemot A field and the related field facilities ("**Guillemot A Field**");

(ii) 100% interest in the Teal field and the related field facilities ("**Teal Field**");

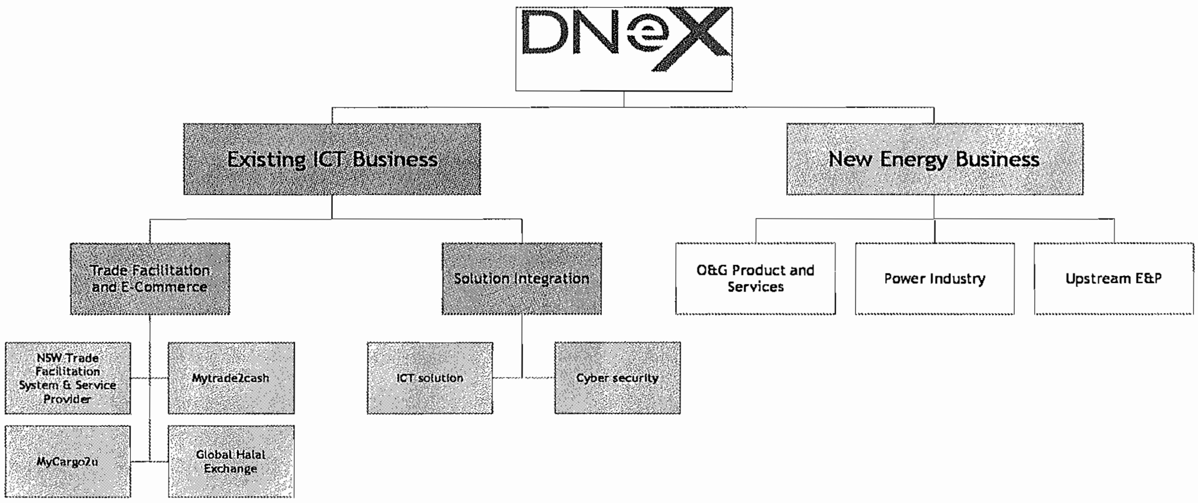
(iii) 100% interest in the Teal South field and the related field facilities ("**Teal South Field**");

(iv) 38.65% interest in the Cook field and the related field facilities ("**Cook Field**"); and

(v) 100% ownership in the common infrastructure known as the Anasuria Floating Production Storage and Offloading unit and the related equipment ("**Anasuria FPSO**").

The Guillemot A Field, Teal Field, Teal South Field, Cook Field and Anasuria FPSO are collectively referred to as the "**Anasuria Cluster**".The Anasuria Cluster is located about 175km east of Aberdeen in the UK Central North Sea, and the equal joint acquisition between Ping UK and Anasuria Hibiscus UK Limited, an indirect wholly-owned subsidiary of Hibiscus Petroleum Berhad, to acquire 50% each of the entire interest in the Anasuria Cluster from Shell U.K. Limited, Shell EP Offshore Ventures Limited and Esso Exploration and Production UK Limited serves as DNeX entry into upstream E&P.

*(Source: Management of DNeX)*




## 9. RISK FACTORS

The potential risk factors relating to the Proposed Acquisitions, which may not be exhaustive, are as follows:-

### 9.1 Risks relating to the business and operations

#### (a) Dependency on O&G industry

In 2014, the global crude oil production grew to 73.4 million barrels per day in line with the expansion in USA production. In 2014, crude oil production from the USA increased to 8.7 million barrels per day. While the production expansion from the USA has raised the global crude oil inventories, demand has underperformed with weakening demand from Europe and Japan. These have resulted in an oversupply within the O&G industry and accordingly, weighing on the commodity pricing.

For the first half of 2015, crude oil price remained on the low side (as compared to over USD100 per barrel in previous years), with monthly average prices fluctuating between USD47.5 to.USD62.5 per barrel. Cheaper oil should impact expenditure on production and limit the growth in supply. Accordingly, USA onshore drilling activity in parts of both emerging and mature oil production regions declined by 288 rigs to 1,263 rigs in January 2015, from its climax of 1,551 rigs recorded in early October 2014. The decline in production output has resulted in a slight recovery in crude oil price to USD54.9 per barrel in February 2015. Oil prices continued to fluctuate in the subsequent months. In March 2015, crude oil price dropped slightly to an average of USD52.8 per barrel due to the crude oil stockpiles in the USA. However in April 2015, crude oil price increased to an average of USD57.4 per barrel, bolstered by lower stockpiles in USA, disruption in Libyan crude oil exports due to protests and subsequently inflated selling prices by Saudi Arabia. In May and June, oil price stood at USD62.5 per barrel and USD61.3 per barrel respectively. And from July 2015 to September 2015, monthly average of crude oil prices stood at USD54.4 per barrel, USD45.7 per barrel and USD46.3 per barrel respectively. Crude oil recorded average price of around USD47.0 per barrel and USD43.0 per barrel in October and November respectively. In December, crude oil price plunged to below USD40 per barrel amid concern about global oversupply of the said commodity subsequent to the decision by OPEC to maintain its current production levels.

In Malaysia, PETRONAS expects oil prices to remain significantly lower than 2014 with an average price of USD55 per barrel for 2015. Accordingly, PETRONAS has announced a cut its operating expenditure by 24% in 2015. Therefore, demand for products and services from the OFSE industry could be affected in the short term (2015 to 2016). Nonetheless, the impact could be offset by an increase in PETRONAS capital expenditure for the overall O&G industry to RM70 billion in 2015 as compared to RM60 billion in 2014.

Meanwhile, the situation surrounding oil prices remains volatile and its outlook remains uncertain in relation to unstable demand and supply conditions. A combination of external factors that will impact the demand and supply conditions, amongst other, are geopolitical and economic instability, inventory builds, production levels and catastrophic risk.

There exists potential for further fluctuation in coming weeks and months as demand drivers remain unstable. At the macro level, the current bearish scenario is largely attributed to the financial concerns surrounding Greece and the economic slowdown in China that are expected to soften their demand for energy products. Despite the improved demand in the European and Asian markets, a weaker demand from Japan is also anticipated moving forward as the country returns some nuclear power plants to service and accordingly, may reduce its dependency on imported energy sources. With oil priced in USD, an appreciation of USD subsequent to the increase of USA interest rate in December 2015 is set to negatively affect the purchasing power of oil importing countries, thus pressuring oil demand.

Meanwhile, the supply situation shows no sign of supply tightening in the near term thereby applying pressure to prices recovery. In addition to the rise in shale oil in USA, OPEC countries continued with a consistent production level thus far and the potential return of an Iranian supply of crude into the international O&G market would further increase the global oil supply, adding pressure to oil price recovery. The oil market may also anticipate an increase in supply subsequent to the lift of export ban by the USA.

Correspondingly, a combination of unstable supply and demand conditions may prevent any significant rally from gaining traction and lead to persistently weaker prices in the coming year. Despite the current bearish condition, PETRONAS expects the oil prices to recover in the medium-to-long term as market adjusts its parity for the mismatch in supply and demand. Prices could also rebound and move higher if any of the factors previously noted begin to reverse or if there is a major geopolitical event that could alter the prevailing dynamics seen for the market.

*(Source: IMRR)*

Nonetheless, there will be no assurance that any changes within the O&G industry will not have material impact to the OGPC Group's financial performance.

**(b) Subject to fundamental change in PETRONAS' policies towards O&G industry**

PETRONAS' current policies in Malaysia towards the O&G industry include the imposition of licensing requirements. Under these policies, only company with valid licenses may supply goods, products and services to the upstream sector of the O&G industry in Malaysia and the PETRONAS and its subsidiaries ("**PETRONAS**

**Group**") in the downstream sector. In addition to these, PETRONAS policies also restrict the ability of supplies of goods, products and services to operate in Malaysia. These restrictions can require, for instance, foreign suppliers to use Malaysian content in their operations and to operate with a Malaysian partner or company through forming a joint venture with a Malaysian partner or Malaysian company, or by designating a Malaysian partner or Malaysian company as an exclusive agent representing the said foreign entity.

The OGPC Group's business is primarily dependent on licences issued by PETRONAS for the operation, namely O&G equipment supplier, and engineering and technical support services provider. Any fundamental change in PETRONAS' policies, which include but not limited to a relaxation or liberalisation of licensing requirements for the provision of goods, products and services related to O&G industry, or permitting foreign suppliers to operate in Malaysia without restrictions, would have a material adverse effect on the OGPC Group's business, operation and financial. Nonetheless, OGPC Group will strive to continue to strive to continue providing excellent services to always be competitive to potential entrants and the synergy with DNeX Group through the Proposed Acquisitions will be an advantage.

**(c) Political and economic risks**

The OGPC Group's financial, business prospects and the industry which it operates in, will depend on the various extents on the developments in the economy, political and regulatory in Malaysia and other foreign countries. Amongst the economic, political and regulatory factors are the changes in inflation rates, interest rates, war, terrorism activities, riots, expropriations, changes in political leadership and unfavourable changes in the Government policies in the O&G industry.

DNeX Group will continue to implement effective measures such as prudent management and efficient operating procedures to mitigate these factors. However, there can be no assurance that adverse economic, political and regulatory changes will not materially affect DNeX Group's business.

**(d) Availability of skilled workers**

As O&G industry is generally technical in nature, the need to retain skilled workers remains a challenge to various companies in recruiting and retaining outstanding staff in the O&G industry. Upon completion of the Proposed Acquisitions, DNeX Group shall also endeavour to ensure the loss of skilled workforce and key personnel of the OGPC Group is kept at a minimal level via the Proposed ESOS.

### 9.2 Risks relating to the industry in which the OGPC Group operates

**(a) Reliance on imports**

A major portion of the OGPC Group products and equipment are imported from UK, USA, Singapore and Japan. For the FYE 2014, the imports from UK, USA, Singapore and Japan accounted for approximately 32%, 11%, 22% and 4% respectively of the total purchases. The OGPC Group's reliance of imports of these key items may pose a risk to its business in the event of, among others, shortage of supply, delays in shipment, imposition of duties and/or taxes and increase in transportation costs. The general problems associated with imports would most likely affect the OGPC Group's competitors as its competitors also place reliance on imports.

Nonetheless, there can be no assurance that this risk will not have any adverse impact to the OGPC Group's operations and financial performance.

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**(b) Dependence on major principals as suppliers**

As a supplier of O&G products and equipment, the OGPC Group relies on its principals for the supply of the products and equipment and services as well as accompanying technologies and knowledge for the installation and service of these products and equipment. Any severance of these relationships will have a negative impact on the OGPC Group's ability to supply the products and equipment to its customers. The OGPC Group depends on its principals for the supply of products and equipment such as heating system, compressors, pumps, flange, valves, flare system and filters from SPX Group, Aspen Technology Inc ("**AspenTech**"), Pentair plc's ("**Pentair**") group of companies ("**Pentair Group**"),Zeeco Inc ("**Zeeco**"), Applicot Corporation ("**Applicot**"), James Walker Sealing Products & Services Limited ("**James Walker**"), FMC Group, Cameron International Corporation ("**Cameron**") and Thermax Limited.

There can be no assurance that the OGPC Group will be able to reduce its dependence on these principals over time or be able to source for alternative principals who supply the required O&G equipment with the same level of quality on a timely basis and based on the same credit terms. If the principals are unable to deliver the required products in accordance with the quality that is required of on time, the OGPC Group's distribution and supply chain may be affected which will have a material and adverse effect on its operations and financial performance.

Although there is no assurance that the OGPC Group will be able to maintain these relationships, it has been dealing with its major principals for over fifteen (15) years. However, the OGPC Group seeks to mitigate this risk by continuously maintaining good relationships to ensure minimal disruptions on its supply chain and operations. In addition, there should generally be a lower probability of disruption affecting long-standing strategic relationships.

**(c) Subject to exchange rate fluctuations**

A significant proportion of the OGPC Group's purchases are transacted in foreign currencies such as the USD, whilst its revenue is mainly denominated in RM. There is a financial risk to the business if there is any adverse fluctuation in any one or more currencies transacted by the OGPC Group. In such a situation, there is a possibility that the OGPC Group could incur foreign exchange losses and/or any of its product pricing may increase which could render it to be less competitive than its competitors.

The OGPC Group utilises the letter of credit facility which provides it with a degree of protection. In addition, as the RM is currently a managed float since the de-pegging of the RM, this may prevent any extreme fluctuations of the RM vis-à-vis USD, and hence the effects of any foreign currency risks are less significant and mitigated to a certain extent.

The OGPC Group management will continue to monitor its foreign exchange exposure by keeping abreast with current political, economic and regulatory conditions of the countries that it works with, both its customers as well as its suppliers. The OGPC Group will take the necessary steps required to minimise their exchange rate exposure whenever deemed appropriate, which is amongst others, through having foreign exchange forward contracts. Nevertheless, there is no assurance that any adverse fluctuations in foreign exchange rates would not have a material impact on the OGPC Group's financial performance.

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**(d) Subject to credit risk of the OGPC Group's customers**

The OGPC Group's financial performance and position are dependent, to a certain extent, on the creditworthiness of its customers. If circumstances arise that affect the customer's ability or willingness to pay, the OGPC Group may experience payment delays or in more severe cases, the OGPC Group may not be able to collect payment from its customers. Accordingly, the OGPC Group would have to make provisions for doubtful debts, or incur debt write-offs, which may have an adverse impact on the profitability.

There has not been any bad debts being written off nor provision made for doubtful debts for the three (3) FYE from 2012 to 2014. There are some customers that will make payment after the normal credit period and this is mainly due to the process involved in finalising the Certificate of Progress Claim, which is needed before payment can be made by the customers.

Although the OGPC Group strives to reduce this risk through its credit evaluation process, there can be no assurance that customer's credit risk will not have an adverse impact on the OGPC Group's future financial performance.

**(e) Competition risks**

The OGPC Group faces competition from local suppliers that have arrangement with foreign principals and existing foreign competitors providing their services locally which offer similar products but from different principals.

In view of the competitive market environment, the OGPC Group has exclusive arrangement to represent world-leading principals with established brand names for O&G, petrochemical, power and general industries' equipment.

Nevertheless, there can be no assurance that the OGPC Group would be able to sustain its competitiveness against current and future competitors.

**(f) Dependence on key personnel**

The OGPC Group's future prospects will depend upon its capability to attract and retain its key personnel after the Proposed Acquisitions. The loss of key personnel of the OGPC Group may have an unfavourable and significant impact on the performance of the OGPC Group as the continued achievement of the business is considerably dependent on the management team of the OGPC Group.

The OGPC Group presently enjoys productive working relationships with its management team and will endeavour to continue its effort to maintain such relationships via the Proposed ESOS. DNeX has entered into Management Services Agreements with each of Vendors of the OGPC Group to ensure continuity of the OGPC Group's business operations.

**(g) Dependency on the PETRONAS licence**

The OGPC Group is dependent on the licence issued by PETRONAS. The licence permits the OGPC Group to participate and/or to be considered for the projects in the Malaysian O&G industry. The licence is subject to renewal every three (3) years, and the OGPC Group has thus far, renewed its PETRONAS licence successfully every time. However, there can be no assurance that the licence will be maintained or renewed upon expiry in the future. Failure to obtain, maintain or renew the PETRONAS licence would result in the OGPC Group not being able to provide the services to the Malaysian O&G industry, which may have a material adverse effect on the business operations and financial performance of the OGPC Group.

**(h) Dependency on major customers**

The contribution from various customers changes from year to year depending on the projects secured by the OGPC Group and also the duration of these projects. Only PETRONAS Group, which consists of many companies, may be considered as major customer in view that OGPC Group has continuous contracts with PETRONAS Group. Failure to continue to obtain contracts with the PETRONAS Group may have a material adverse effect on the financial performance of the OGPC Group.

## 9.3 Other Risks

**(a) Industry risks**

The DNeX Group is principally involved in ICT business. Hence, the Proposed Acquisitions which involves the acquisitions of the OGPC Group will enhance DNeX Group's business diversification. However, the performances of the OGPC Group are subject to risks inherent in the O&G industry. These may include fluctuation in world prices of oil, competition from foreign players, depletion of natural resources in the Malaysian market, regulatory compliance and dependence on licenses, permits, agency and/or agreements, shortage of skilled workforce, equipment and machineries, rapid changes in industrial technology, operational health and safety risks, increase in cost of labour and equipment, increase in cost of operations and changes in Government policies affecting the O&G industry.

Though, DNeX Group seeks to mitigate these risks through its employment of strong technically capable personnel, implementing prudent business strategies and carrying out continuous review of its operations for geographical expansion. However, there is no assurance that any change to the above factors, which are beyond DNeX Group's control, will not materially affect its business.

**(b) Acquisition risks**

Although that DNeX Group may benefit from the Proposed Acquisitions, there is no assurance that the anticipated benefits of the Proposed Acquisitions will be materialised or that DNeX Group will be able to generate satisfactory revenues from the Proposed Acquisitions to compensate the associated acquisition costs incurred, namely the dilution to the EPS of DNeX Group. There is also no assurance that DNeX Group is able to maintain or improve the standards of quality and services of the business of the OGPC Group.

However, DNeX Group has mitigated such risk by adopting prudent investment strategies and engaging independent experts to conduct evaluation and assessment on the OGPC Group's current capabilities in terms of assets, equipment and technologies prior to making its investment decisions.

**(c) Non-completion risks**

The completion of the Proposed Acquisitions is subjected to certain conditions which are beyond the control of DNeX Group, such as the approvals of relevant authorities and Shareholders. There is no assurance that the Proposals will be completed as contemplated by DNeX Group. However, DNeX Group will take reasonable steps that are within its control to ensure that the Conditions Precedent are fulfilled by the stipulated date.

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## 10. EFFECTS OF THE PROPOSALS

### 10.1 Issued and paid-up share capital

The Proposed ESOS is not expected to have any immediate effect on the issued and paid-up share capital of DNeX until such time when such ESOS Options are exercised. However, the issued and paid-up share capital of DNeX will increase progressively depending on the number of ESOS Options, subject to a maximum of five percent (5%) of the issued and paid-up share capital (excluding treasury shares) of the Company at any point in time during the duration of the Proposed ESOS.

The proforma effects of the Proposed Rights Issue, Proposed Special Issue, Proposed Acquisitions and the Proposed ESOS on the issued and paid-up share capital of the Company are as follows:-

| | Par Value RM | No. of Shares | RM |
|---|---|---|---|
| Issued and paid-up share capital as at the LPD | 0.20 | 775,244,683 | 155,048,936 |
| To be issued pursuant to the Proposed Rights Issue | 0.20 | 465,146,809 | 93,029,361 |
| | 0.20 | 1,240,391,492 | 248,078,297 |
| To be issued pursuant to the Proposed Special Issue | 0.20 | 130,000,000 | 26,000,000 |
| | 0.20 | 1,370,391,492 | 274,078,297 |
| To be issued pursuant to the Proposed Acquisitions | 0.20 | 362,500,000 | 72,500,000 |
| | 0.20 | 1,732,891,492 | 346,578,297 |
| To be issued assuming full exercise of the Warrants | 0.20 | 711,396,809 | 142,279,361 |
| | 0.20 | 2,444,288,301 | 488,857,658 |
| To be issued assuming full exercise of the ESOS Options | 0.20 | 122,214,415 | 24,442,883 |
| **Enlarged issued and paid-up share capital** | **0.20** | **2,566,502,716** | **513,300,541** |

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## 10.2 Substantial Shareholders' shareholdings

The proforma effects of the Proposals on the Substantial Shareholders' shareholdings based on the Register of Substantial Shareholders of the Company as at the LPD are set out below:-

| Substantial Shareholders of DNeX | As at the LPD | | | | (I) After Proposed Rights Issue | | | | (II) After (I) and Proposed Special Issue | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Direct | | Indirect | | Direct | | Indirect | | Direct | | Indirect | |
| | No. of Shares | % | No. of Shares | % | No. of Shares | % | No. of Shares | % | No. of Shares | % | No. of Shares | % |
| Censof | 304,112,731 | 39.23 | - | - | 486,580,369 | 39.23 | - | - | 486,580,369 | 35.51 | - | - |
| Datuk Samsul bin Husin | - | - | 304,112,731* | 39.23 | - | - | 486,580,369* | 39.23 | - | - | 486,580,369* | 35.51 |
| Special Issue Investors | - | - | - | - | - | - | - | - | 130,000,000 | 9.49 | - | - |

| Substantial Shareholders of DNeX | (III) After (II) and Proposed Acquisitions | | | | (IV) After (III) and assuming full exercise of the Warrants | | | | (V) After (IV) and assuming full exercise of the ESOS Options** | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Direct | | Indirect | | Direct | | Indirect | | Direct | | Indirect | |
| | No. of Shares | % | No. of Shares | % | No. of Shares | % | No. of Shares | % | No. of Shares | % | No. of Shares | % |
| Censof | 486,580,369 | 28.08 | - | - | 669,048,007 | 27.37 | - | - | 669,048,007 | 26.07 | - | - |
| Datuk Samsul bin Husin | - | - | 486,580,369* | 28.08 | - | - | 669,048,007* | 27.37 | - | - | 669,048,007* | 26.07 |
| Special Issue Investors | 130,000,000 | 7.50 | - | - | 195,000,000 | 7.98 | - | - | 195,000,000 | 7.60 | - | - |
| Azman bin Karim | 190,906,315 | 11.02 | - | - | 286,359,473 | 11.72 | - | - | 286,359,473 | 11.16 | - | - |
| Khoo Kok Seng | 105,539,003 | 6.09 | - | - | 158,308,504 | 6.48 | - | - | 158,308,504 | 6.17 | - | - |
| ESOS Option holders | - | - | - | - | - | - | - | - | 122,214,415 | 4.76 | - | - |

*Notes:-*

* *Deemed interest by virtue of his substantial direct interest in SAAS Global Sdn Bhd, which in turn holds shares in Censof.*

** *Assuming no ESOS Option is being allocated to the Vendors and DNeX's Directors.*

### 10.3 NA and gearing

The Proposed ESOS is not expected to have an immediate effect on the NA, NA per Share and gearing of DNeX Group until such time when the ESOS Options are exercised.

The effect on the NA and gearing of the Group will depend on the number of ESOS Options granted and exercised as well as the fair value of the ESOS Options after taking into account, inter-alia, the ESOS Subscription Price. Whilst the granting of the ESOS Options under the Proposed ESOS is expected to result in a charge to the statements of comprehensive income of the Group pursuant to the MFRS 2, the recognition of such MFRS 2 charge would not have any material impact on the NA of the Group as the corresponding amount will be classified as an equity reserve which forms part of the shareholders' equity.

In the event that none of the ESOS Options are exercised within the duration of the Proposed ESOS, the amount outstanding in the said equity reserve would be transferred into the Company's retained earnings. On the other hand, if the ESOS Options are exercised, the amount outstanding in the said equity reserve would be transferred into the Company's share capital and/or share premium account.

For illustration purpose only, based on the latest audited consolidated financial statements of DNeX as at the FYE 2014 and on the assumption that the Proposed Acquisitions had been affected on that date, the proforma effects of the Proposals on the NA, NA per DNeX Share and gearing of DNeX Group are as follows:-

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| | DNeX Audited as at 31 December 2014 | (I) After Proposed Rights Issue | (II) After (I) and Proposed Special Issue | (III) After (II) and Proposed Acquisitions | (IV) After (III) and full exercise of the Warrants | (V) After (IV) and full exercise of the ESOS Options |
|---|---|---|---|---|---|---|
| | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 |
| Share capital | 155,049 | 248,078 | 274,078 | 346,578 | 488,857 | 513,300 |
| Reserves | | | | | | |
| - Share premium | - | 2,279 | 4,586 | 13,499 | 230,371 | 232,218 |
| - Warrants reserve | - | 2,373[b] | 2,666[b] [c] | 3,453[b] [c] [d] | - | - |
| - ESOS reserve | - | - | - | - | - | - |
| - Accumulated losses | (68,859) | (68,859) | (68,859) | (68,859) | (68,859) | (70,081)[a] [e] |
| **TOTAL EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY** | 86,190 | 183,871 | 212,471 | 294,671 | 650,369 | 675,437 |
| **NON-CONTROLLING INTERESTS** | 21,996 | 21,996 | 21,996 | 21,996 | 21,996 | 21,996 |
| **TOTAL EQUITY/ NA** | 108,186 | 205,867 | 234,467 | 316,667 | 672,365 | 697,433 |
| Number of DNeX Shares in issue ('000) | 775,245 | 1,240,391 | 1,370,391 | 1,732,891 | 2,444,288 | 2,566,502 |
| NA per Share (RM) | 0.14 | 0.17 | 0.17 | 0.18 | 0.28 | 0.27 |
| Total Borrowings (RM'000) | 38,530 | 38,530 | 38,530 | 38,530 | 38,530 | 38,530 |
| Gearing ratio (times) | 0.36 | 0.19 | 0.16 | 0.12 | 0.06 | 0.06 |

Notes:-

*(a)* *After netting off estimated expenses incidental to the Proposals of approximately RM4.8 million as disclosed in Section 6.1 of this Circular.*

*(b)* *Based on the issuance of 465,146,809 Warrants pursuant to the Proposed Rights Issue at an allocated fair value of RM0.01 per Warrant.*

*(c)* *Based on the issuance of 65,000,000 Warrants pursuant to the Proposed Special Issue at an allocated fair value of RM0.01 per Warrant.*

*(d)* *Based on the issuance of 181,250,000 Warrants pursuant to the Proposed Acquisitions at an allocated fair value of RM0.01 per Warrant.*

*(e)* *Assuming that ESOS Options are granted an exercise price of RM0.2051 per ESOS Option, being a discount of 10% to the TERP of DNeX Share of RM0.2279 per DNeX Share based on the 5D-VWAMP of the Shares up to and including the LPD.*

## 10.4 Earnings and EPS

The Proposals are expected to be completed by first (1st) quarter of the calendar year 2016. As such, the Proposed Rights Issue, Proposed Special Issue, Proposed Acquisitions and the Proposed ESOS are not expected to have any effect on the earnings of DNeX Group for the FYE 2014 (save for the possible impact of the MFRS 2). The Company's EPS will be impacted with the expected positive earnings contributions of the OGPC Group after taking into account the increase in the number of DNeX Shares in issue after Proposed Rights Issue, Proposed Special Issue and Proposed Acquisitions.

Under the MFRS 2, the cost arising from the issuance of the ESOS Options is measured by the fair value of the ESOS Options, which is recognised in the statement of comprehensive income when granting the ESOS Options, thereby reducing the earnings of DNeX Group.

In addition, the allotment and issuance of new DNeX Shares pursuant to the exercise of ESOS Options under the Proposed ESOS will have a dilutive effect on our Group's EPS due to the increase in number of DNeX Shares.

The quantum of such impact could not be determined at this juncture as it is dependent on the factors mentioned above. However, it should be noted that the expense arising from the granting of the ESOS Options does not represent a cash outflow of the Company as it is merely an accounting treatment. The Board has taken note of the potential impact of MFRS 2 on the earnings of the Group and shall take proactive measures to manage the earnings impact in the allocation and granting of the ESOS Options to the Eligible Persons.

For illustrative purpose, based on the latest audited consolidated financial statements of DNeX as at FYE 2014, the proforma effects of the Proposals on the earnings and EPS of DNeX Group assuming the Proposals had been effected on 1 January 2014, being at the beginning of the FYE 2014 are as follows:-

| | DNeX Audited as at 31 December 2014 | (I) After Proposed Rights Issue | (II) After (I) and Proposed Special Issue | (III) After (II) and Proposed Acquisitions | (IV) After (III) and full exercise of the Warrants | (V) After (IV) and full exercise of the ESOS Options |
|---|---|---|---|---|---|---|
| Number of DNeX Shares in issue ('000) | 775,245 | 1,240,391 | 1,370,391 | 1,732,891 | 2,444,288 | 2,566,502 |
| PAT attributable to the equity holders of DNeX (RM'000) | 12,215 | 12,215 | 12,215 | 26,305 [(b)(c)] | 26,305 | 26,305 |
| EPS (sen)[(a)] | 0.02 | 0.01 | 0.01 | 0.02 | 0.01 | 0.01 |

Notes:-

(a) *EPS is calculated based on the PAT attributable to the equity holders of DNeX/ number of DNeX Shares in issue.*

(b) *After taking into account of the OGPC Group's PAT of RM18.89 million based on the Accountants' Report FYE 2014.*

(c) *After taking into account of the estimated expenses of RM4.8 million in relation to the Proposals.*

### 10.5 Convertible securities

The Company does not have any convertible securities as at the date of this Circular.

## 11. HIGHEST PERCENTAGE RATIO APPLICABLE

The highest percentage ratio applicable to the Proposed Acquisitions pursuant to Paragraph 10.02(g) of the Listing Requirements is above 100% computed based on the OGPC Group Purchase Consideration as compared to the latest audited consolidated financial statements FYE 2014's NA of DNeX.

## 12. CHANGE IN CONTROLLING SECURITIES AND BOARD COMPOSITION

As at the LPD, Censof owns 304,112,731 Shares (39.23% direct interest of the issued and paid-up share capital of DNeX).

Upon completion of the Proposed Rights Issue, Proposed Special Issue and Proposed Acquisitions, Censof's shareholdings will be reduced from 304,112,731 Shares (39.23% direct interest of the issued and paid-up share capital of DNeX) to 486,580,369 Shares (28.08% direct interest of the enlarged issued and paid-up share capital of DNeX).

For information purpose, the three (3) new shareholders' aggregate shareholdings constitute only to 362,500,000 Shares (20.92% direct interest of the enlarged issued and paid-up share capital of DNeX) whereby Azman bin Karim, Khoo Kok Seng and Abdul Manaf bin Shariff hold 11.02%, 6.09% and 3.81% direct interest of the enlarged issued and paid-up share capital of DNeX respectively. Hence, only Azman bin Karim and Khoo Kok Seng will be regarded as Substantial Shareholders of DNeX. In summary, the Proposed Rights Issue, Proposed Special Issue and Proposed Acquisitions will result in a change in the current controlling shareholder's shareholdings whereby Censof's shareholdings will be diluted to be below 33.0% and remained as the largest shareholder of DNeX (i.e. 28.08% of the enlarged issued and paid-up share capital of DNeX). There will be no new controlling shareholder arises post-completion of the Proposed Rights Issue, Proposed Special Issue and Proposed Acquisitions.

The Proposed Acquisitions will not give rise to a change in the board composition of DNeX.

## 13. APPROVALS REQUIRED

The Proposals are subject to the following approvals being obtained:-

(a) SC, pursuant to the Equity Guidelines for the Significant Change in Business Direction of DNeX which was obtained on 21 October 2015 (vide its letter 20 October 2015), subject to amongst others the following conditions:-

| Condition imposed | Status of compliance |
|---|---|
| AmInvestment Bank and DNeX to fully comply with the requirements of the Equity Guidelines and Listing Requirements pertaining to the implementation of the proposed scheme in relation to the Proposed Acquisitions resulting in a significant change in business direction or policy of DNeX. | To be complied. |

and registration of the abridged prospectus;

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(b) Bursa Securities, for:-

(i) the listing of and quotation for the Rights Shares on the Main Market of Bursa Securities;

(ii) the listing of and quotation for the Special Issue Shares on the Main Market of Bursa Securities;

(iii) the listing of and quotation for the Consideration Shares on the Main Market of Bursa Securities;

(iv) the listing of and quotation for the new DNeX Shares arising from the exercise of the ESOS Options to be granted pursuant to the Proposed ESOS; and

(v) the admission of new Warrants to the Official List and the listing of and quotation for the Warrants on the Main Market of Bursa Securities pursuant to the Proposed Rights Issue, Proposed Special Issue and Proposed Acquisitions as well as the listing of and quotation for the new Shares issued pursuant to the exercise of the Warrants;

which was obtained on 25 November 2015 (vide its letter 24 November 2015), subject to amongst others the following conditions:-

| No. | Conditions imposed | Status of compliance |
|---|---|---|
| 1. | DNeX and AmInvestment Bank must fully comply with the relevant provisions under the Listing Requirements pertaining to the implementation of the Proposals; | Noted. |
| 2. | DNeX must fully comply with the public shareholding spread requirements pursuant to Paragraph 8.02 of the Listing Requirements upon the listing of and quotation for DNeX Shares arising from the Proposed Rights Issue, Proposed Special Issue and Proposed Acquisition; | To be complied. |
| 3. | DNeX and AmInvestment Bank to furnish the following to Bursa Securities prior to the listing of and quotation for DNeX Shares arising from the Proposed Rights Issue, Proposed Special Issue and Proposed Acquisition;<br><br>(a) Confirmation from AmInvestment Bank that DNeX complies with the public shareholding spread requirements pursuant to Paragraph 8.02(1) of the Listing Requirements and a certificate of distribution of shares in the format contained in Part B(1)(d) of Annexure Practice Note 21-A of the Listing Requirements; and<br><br>(b) A certified true copy of the resolution passed by Shareholders in general meeting approving the Proposals. | To be complied. |
| 4. | AmInvestment Bank is required to submit a confirmation to Bursa Securities of full compliance of Proposed ESOS pursuant to Paragraph 6.43(1) of the Listing Requirements and stating the effective date of implementation together with a certified true copy of the resolution passed by the Shareholders in extraordinary general meeting; | To be complied. |
| 5. | DNeX and AmInvestment Bank to inform Bursa Securities upon the completion of the Proposals; | To be complied. |

| | | |
|---|---|---|
| 6. | DNeX to furnish Bursa Securities with a written confirmation of its compliance with the terms and conditions of Bursa Securities' approval once the Proposals are completed; and | To be complied. |
| 7. | DNeX is required to furnish Bursa Securities on a quarterly basis a summary of the total number of shares listed pursuant to the exercise of the Warrants and options under the proposed ESOS at the end of each quarter together with a detailed computation of listing fees payable. | To be complied. |

(c) the Shareholders, at the forthcoming EGM for the Proposals;

(d) CCM, for the lodgement of the abridged prospectus; and

(e) such other waivers, consents or approvals as may be required from any relevant authorities and/or third parties, if required.

## 14. INTER-CONDITIONALITY OF THE PROPOSALS

The Proposed Rights Issue, the Proposed Special Issue and the Proposed Acquisitions are inter-conditional upon each other.

The Proposed ESOS is conditional upon the Proposed Rights Issue, the Proposed Special Issue and the Proposed Acquisitions.

The Proposals are not conditional upon any other existing or future corporate exercises of the Company.

## 15. DIRECTORS' AND MAJOR SHAREHOLDERS' INTERESTS

### 15.1 Proposals (save for the Proposed ESOS)

None of the Directors, major shareholders and/or Persons Connected with them have any interest, either direct or indirect in the Proposed Rights Issue, the Proposed Special Issue and the Proposed Acquisitions, other than their respective entitlements as Shareholders under the Proposed Rights Issue, for which all other Shareholders are similarly entitled to, including the right to apply for any excess Rights Shares.

### 15.2 Proposed ESOS

Our Executive Directors, namely Datuk Samsul bin Husin, Zainal 'Abidin bin Abd Jalil and Dato' Wong Kam Yin are "**Interested Directors**" because they are are deemed interested in the Proposed ESOS by virtue of their eligibility for participation in the Proposed ESOS in their capacity as Executive Directors of DNeX in respect of their specific allocations as well as specific allocations to Persons Connected with them under the Proposed ESOS.

Accordingly, the Interested Directors have abstained and will continue to abstain from all deliberations and voting in respect of any specific allocations of ESOS Options to themselves respectively as well as the specific allocations to any Persons Connected with them at the relevant Board meetings of the Company.

In addition, the Interested Directors will abstain from voting in respect of their direct/or indirect shareholdings in DNeX (if any), on the resolutions pertaining to their respective specific allocations of ESOS Options as well as the specific allocations to Persons Connected with them under the Proposed ESOS at the EGM to be convened.

Further, the Interested Directors have also undertaken that they shall ensure that Persons Connected with them will abstain from voting in respect of their direct and/or indirect shareholdings in the Company at the relevant Board meetings of the Company and on the resolutions pertaining to any specific allocations of ESOS Options to themselves as well as the specific allocations to Persons Connected with them under the Proposed ESOS at the EGM to be convened.

## 16. DIRECTORS' STATEMENT

The Board (save for the Interested Directors in relation to the Proposed ESOS), having considered all aspects of the Proposals, including but not limited to, the rationale and justifications, financial effects, prospects and risks associated with the Proposals in this Circular, is of the opinion that the Proposals are in the best interest of the Company and are fair and reasonable. Accordingly, the Board (save for the Interested Directors in relation to the Proposed ESOS), recommends that the Shareholders vote in favour of the resolutions pertaining to the Proposals to be tabled at the forthcoming EGM.

## 17. CORPORATE EXERCISES ANNOUNCED BUT PENDING COMPLETION

On 8 April 2015, the Company announced that its subsidiary, Dagang Net, is undertaking a selective capital reduction and repayment exercise pursuant to Section 64 of the Act ("**Proposed SCR**"). The Proposed SCR is expected to be completed in the first ($1^{st}$) quarter of the calendar year 2016.

On 7 September 2015, the Company announced that its wholly-owned subsidiary, DNeX Petroleum, had entered into a share subscription agreement with Ping to subscribe for new ordinary shares of USD0.001 each in Ping, which represent 30% of the enlarged issued share capital of Ping, for a total consideration of USD10.0 million in cash ("**Proposed Subscription**"). The Proposed Subscription is expected to be completed in the first ($1^{st}$) quarter of the calendar year 2016.

Save for the Proposals and as disclosed above, there is no other corporate exercise or scheme which has been announced by the Company but pending completion as at the LPD.

## 18. TENTATIVE TIMELINE FOR IMPLEMENTATION

Subject to the fulfilment of the Conditions Precedent as set out in the SSA, as amended by the Supplemental SSA, and to all relevant approvals being obtained, the Proposals are expected to be completed by the first ($1^{st}$) quarter of the calendar year 2016. The tentative timeline in relation to the Proposals are as follows:-

| Date | Events |
|---|---|
| End of January 2016 | EGM of the Company to be convened to approve the Proposals |
| Early February 2016 | Announcement of the Entitlement Date for the Proposed Rights Issue |
| End of February 2016 | Submission of abridged prospectus for registration to the SC<br><br>Despatch of abridged prospectus together with the rights subscription form and notice of provisional allotment for the Proposed Rights Issue |
| Early March 2016 | Last day for payment and acceptance of the Rights Shares |
| Middle of March 2016 | Listing of and quotation for the Rights Shares, Special Issue Shares, Consideration Shares and Warrants on the Main Market of Bursa Securities. |
| End of March 2016 | (a) Completion of the Proposals<br>(b) Announcement of the completion of the Proposals |

## 19. EGM

The EGM, the notice of which is enclosed in this Circular, will be held at Ballroom 1, 1st Floor, Sime Darby Convention Centre, 1A, Jalan Bukit Kiara 1, 60000 Kuala Lumpur, on Wednesday, 27 January 2016, at 10.00 a.m., or at any adjournment thereof, for the purpose of considering and, if thought fit, passing, with or without modifications, the resolutions pertaining to the Proposals.

If you are unable to attend and vote in person at the EGM, you may appoint a proxy or proxies to attend and vote on your behalf. If you wish to do so, you must complete, sign and return the enclosed Form of Proxy and lodge it with the Share Registrar of the Company, Mega Corporate Services Sdn Bhd at Level 15-2, Bangunan Faber Imperial Court, Jalan Sultan Ismail, 50250 Kuala Lumpur not less than twenty-four (24) hours before the time fixed for the EGM. The completion and lodging of the Form of Proxy shall not preclude you from attending and voting in person at the EGM should you subsequently wish to do so and in such an event, your Form of Proxy shall be deemed to have been revoked.

## 20. FURTHER INFORMATION

You are advised to refer to the enclosed appendices for further information.

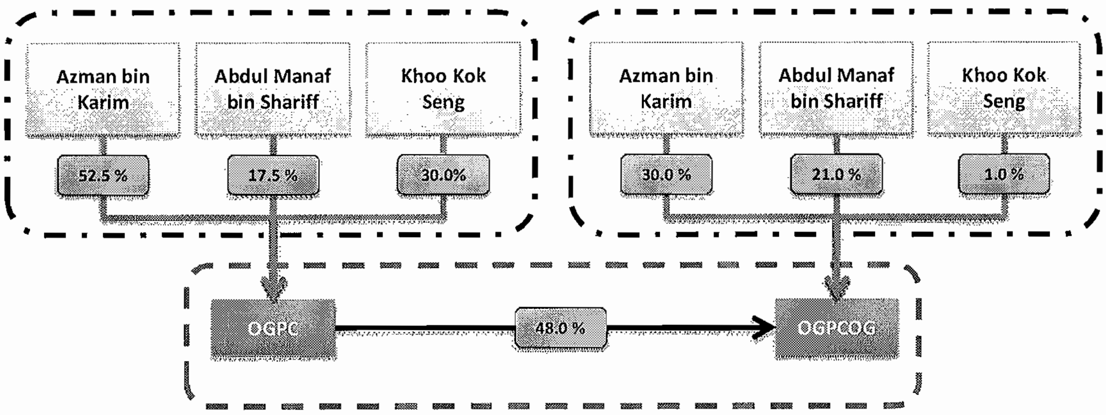
Yours faithfully
For and on behalf of the Board
**DAGANG NeXCHANGE BERHAD**

**Datuk Samsul bin Husin**
**Executive Deputy Chairman**

## 1. HISTORY AND BUSINESS

### 1.1 OGPC Group's group structure

As at the LPD, the shareholding and group structure of the OGPC Group are as follows:-




The information on OGPC and OGPCOG is set out in Section 2.3.1(ii) and Section 2.3.2(ii) of this Circular respectively.

OGPC and OGPCOG share the same management and service offices. The head office is situated in iParc 3, Shah Alam, whereas two (2) service offices are strategically located within the Malaysian O&G hub namely, Kemaman, Terengganu and Miri, Sarawak. The details of the premises occupied by the OGPC Group are as follows:-

| Premises | Location |
|---|---|
| Head office | No. 1 and No. 3, Jalan Riyal U3/37, iParc 3 @ Shah Alam, Seksyen U3, 40150 Shah Alam, Selangor Darul Ehsan.<br>Please refer to Section 6.1 of this Appendix I(A) for more information. |
| Service office | First Floor, No. 9682, Taman Chukai Utama, Jalan Kubang Kurus, 24000 Kemaman, Terengganu.<br>Please refer to Section 6.2 of this Appendix I(A) for more information. |
| Service office | Lot 575, First Floor, Pelita Commercial Centre, 98000 Miri, Sarawak.<br>Please refer to Section 6.2 of this Appendix I(A) for more information. |

### 1.2 OGPC Group history

The history of OGPC can be traced back to 1996 with the establishment of OGPC by Mr Azman bin Karim, Mr Abdul Manaf bin Shariff and Mr Khoo Kok Seng, as a result of the acquisition of a dormant company which was incorporated in 1994.

Upon completion of the acquisition, the initial period was spent on obtaining the necessary licenses from MOF and PETRONAS, in which, both the licenses were obtained in 1996. Subsequently, it began its operations of supplying and distributing O&G equipment and services for the upstream and downstream segments of the O&G industry, which include industrial equipment, computer software, operating system and communication equipment.

Since its establishment, it has collaborated with a number of international O&G equipment manufacturers which include, amongst others, Clarcor Industrial Air Ltd, *(formerly known as Altair Filters International Ltd)* ("**Clarcor**") UK, Liquip International Pty Ltd, ("**Liquip**") UK and FMC Technologies Fluid Control ("**FMC Fluid Control**") USA. The collaboration with these parties enable OGPC to provide equipment and solutions for loading arms, pumping and metering solutions and engineered valves to its customers, namely Esso Malaysia Bhd, Mobil Oil Malaysia Sdn Bhd, PETRONAS, Technip Bechtel and Nigerian National Petroleum Co.

Over the years, OGPC expanded its range of products to include pipeline cleaning systems (pigging), compressors and agitators. Customers for the new range of products include Malaysia Shipyard and Engineering Sdn Bhd, Technip Geoproduction (M) Sdn Bhd, Shell Refining Co (FOM) Bhd, Sime Sembawang Engineering Sdn Bhd, Stone & Webster Ltd., UK, Toyo Engineering Co. Japan, PETRONAS Gas Bhd, Chiyoda Malaysia Sdn Bhd and Esso Production Malaysia Incorporation.

In 1999, the OGPC Group established its service centre in one of Malaysia's O&G hub located in Kemaman, Terengganu, as part of its initiative to be closer to its customers.

In 2000, OGPC relocated from its old office in Old Klang Road to its premise located at Bukit Jelutong in Shah Alam. OGPC expanded its business to the power sector and was licensed by TNB as an approved supplier and service contractor. OGPC has supplied some boiler related equipment to TNB throughout the years. During the same year, OGPC was also licensed by CIDB to be an approved contractor for general building construction, general engineering work and all types of mechanical and electrical work. OGPC's business has then expanded to include installation and commissioning services for the equipment supplied by them and further strengthened its arrangement with the manufacturers or principals to include collaboration in the areas of technical servicing and product improvements. Under this arrangement, the principals will, as and when required, send their technical personnel to assist in servicing the customers of the OGPC. This strengthened arrangement, which has increased its scope of services to its customers, has provided OGPC with the platform to provide additional value to its customers while at the same time allowing it to increase its customer base and bolster its position as a solution provider.

In 2006, OGPC expanded into the East Malaysian market with the establishment of its second service centre located in Miri, Sarawak. The same year also saw OGPC expanded its customer reach by supplying its products and providing services to customers in Thailand, Singapore, Indonesia, Vietnam, Myanmar and Brunei, albeit on a smaller scale.

In 2008, OGPCOG was incorporated to be principally involved in the provision of value-add services, as well as the supply of specialised equipment to the O&G, petrochemical, power and general industries. The value-add services include filter retrofitting, pump servicing, repair and alignment, compressor servicing, flare system servicing and replacement, marine loading arm inspection, maintenance and servicing, as well as troubleshooting as and when required by customers. Later in 2008, OGPC received "Outstanding Achievement Silver Award" and "Contributor's Award" from Pentair Group for the former's sales of Pentair Flow Control and Pentair Thermal Controls, respectively.

In 2011, the OGPC Group purchased two (2) units of semi-detached factory lots located at iParc 3 in Bukit Jelutong, Shah Alam, as part of its expansion plans to better service its customers, both locally and overseas (regional as well as Middle Eastern customers). In addition, OGPC received the "Achievement Award" from Pentair Group for its outstanding sales of Pentair Thermal Control products. It also received the "Excellent Achievement Award" in 2012 from Pentair Group for achieving the highest year-on-year sales growth for the Pentair Thermal Control products. The OGPC Group also received "Highest Single Project Value Achiever Award" from Pentair Group in 2012.

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In 2013, OGPC embarked on its first project for underwater services which include surface oriented air diving services, saturation diving services, remotely operated vehicle (ROV) services and underwater engineering, construction and maintenance services for PETRONAS. In the same year, it received "Highest Sales Revenue Award" from Pentair Thermal.

The OGPC Group ventured into the Middle East market in 2014 by registering with PETRONAS Carigali, Iraq Holdings B.V., which enables it to undertake projects in the region. In the same year, OGPC has successfully registered as a vendor with FELDA. In 2015, the OGPC Group has moved into its current head office at iParc 3, Shah Alam.

### 1.3 Key achievement and milestones

The OGPC Group's key development and achievement milestones over the years are as follows:-

| Year | Achievement/Milestones |
|---|---|
| 1996 | • OGPC commenced operation from a rented office premise located at Petaling Utama, Jalan Klang Lama.<br>• OGPC obtained its PETRONAS and MOF Licences. |
| 1999 | • OGPC purchased its previous head office in Bukit Jelutong, Shah Alam, Selangor.<br>• OGPC established a branch in Kemaman, Terengganu. |
| 2000 | • OGPC moved into its previous head office in Bukit Jelutong, Shah Alam, Selangor.<br>• OGPC obtained the CIDB license.<br>• OGPC obtained the TNB license. |
| 2005 | • OGPC received a plaque of appreciation for the successful completion of Yoho YP Topsides by Consortium of Sime Darby Engineering Sdn Bhd, ExxonMobil and Saipem S.p.A.<br>• OGPC received a plaque of appreciation for an Outstanding Safety Performance Award for the Amenam Kpono Oil and Gas Export Project ("**AKOGEP**") Phase 2 Project by ExxonMobil, Saibos Akogep Snc and Total S.A. |
| 2006 | • OGPC set up a branch in Miri, Sarawak. |
| 2007 | • A plaque of appreciation in 2007 for the contribution to SUPG-B MCD Achievement for Sumandak Selatan ("**SUPG-B**") and SumandakTepi ("**SUJT-C**") Development Project Phase 2 by PETRONAS Carigali Sdn Bhd ("**PETRONAS Carigali**"). |
| 2008 | • Incorporation of OGPCOG.<br>• OGPC received "Outstanding Achievement Silver Award" for Pentair Flow Control products.<br>• OGPC received "Contributor's Award" for Pentair Thermal Controls products.<br>• OGPC has received a certificate of appreciation for the successful completion of work to client's satisfaction and fully complied with all the terms and conditions of the contract for Yarway Desuperheater Control Valve overhaul by PETRONAS Penapisan (Terengganu) Sdn Bhd and Aromatics Malaysia Sdn Bhd. |
| 2011 | • OGPC purchased new factory/office at iParc 3 Bukit Jelutong, Shah Alam which has an office space of 15,000 square feet and operation floor of 10,000 square feet.<br>• OGPC was conferred with "Good Achievement Award for year on year sales growth for financial year 2011" for Pentair Thermal Control products. |

| Year | Achievement/Milestones |
|---|---|
| 2012 | • OGPC was conferred with "Excellent Achievement Award for highest year on year sales growth for financial year 2012" for Pentair Thermal Control products.<br>• OGPC was awarded Highest Single Project Value Achiever Award for Pentair Thermal Control products. |
| 2013 | • OGPC executed its first project for underwater services.<br>• OGPC was awarded "Highest Sales Revenue Award" for Pentair Thermal products. |
| 2014 | • OGPC was registered with PETRONAS Carigali Iraq Holding B.V.<br>• OGPC was registered as a vendor with FELDA. |
| 2015 | • The OGPC Group moved its current head office at iParc 3, Shah Alam. |

## 2. SHARE CAPITAL

The authorised, issued and paid-up share capital of OGPC as at the LPD are as follows:-

| | No. of OGPC Shares | Par Value (RM) | Amount (RM) |
|---|---|---|---|
| Authorised share capital | 500,000 | 1.00 | 500,000 |
| Issued and paid-up share capital | 500,000 | 1.00 | 500,000 |

The authorised, issued and paid-up share capital of OGPCOG as at the LPD are as follows:-

| | No. of OGPCOG Shares | Par Value (RM) | Amount (RM) |
|---|---|---|---|
| Authorised share capital | 1,000,000 | 1.00 | 1,000,000 |
| Issued and paid-up share capital | 1,000,000 | 1.00 | 1,000,000 |

## 3. SUBSTANTIAL SHAREHOLDERS

Please refer to Section 2.3.1(ii)(b) and Section 2.3.2(ii)(b) of this Circular for information on the Substantial Shareholders of OGPC and OGPCOG.

### 3.1 Changes in the Substantial Shareholders for the past three (3) years

There have been no changes in the Substantial Shareholders of OGPC and OGPCOG for the past three (3) years up to the LPD.

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## 4. DIRECTORS

Please refer to Section 2.3.1(iii) and Section 2.3.2(iii) of this Circular for information on the Directors of OGPC and OGPCOG respectively.

### 4.1 Profile of the Directors

#### 4.1.1 Azman bin Karim

Please refer to Section 2.3.1(iii)(a) of this Circular for further information on Azman bin Karim.

#### 4.1.2 Abdul Manaf bin Shariff

Please refer to Section 2.3.1(iii)(b) of this Circular for further information on Abdul Manaf bin Shariff.

#### 4.1.3 Khoo Kok Seng

Please refer to Section 2.3.1(iii)(c) of this Circular for further information on Khoo Kok Seng.

## 5. SUBSIDIARIES AND ASSOCIATED COMPANIES

As at the LPD, OGPC owns 48.0% of the issued and paid-up share capital in OGPCOG. As both OGPC and OGPCOG have common Directors, as stated in Section 4.1 of this Appendix I(A), who exercise management control over these both OGPC and OGPCOG, OGPCOG is deemed as a subsidiary of OGPC, in line with the provision of the MFRSs.

As at the LPD, OGPCOG does not have any subsidiary or associated company.

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## 6. PROPERTY AND ASSET OWNED

### 6.1 Properties owned

As at the LPD, OGPC owns the following material properties:-

| No. | Registered owner/ Beneficial owner | Title Particulars/ Postal address | Description/ Existing use | Approximately age of building/ Tenure/ Approximate land area/ Approximate built-up area | Restriction in interest/ Encumbrances | Date of issuance of CF/ CCC | Audited NBV @ 31.12.2014 (RM) |
|---|---|---|---|---|---|---|---|
| 1. | OGPC (currently registered under the name of proprietor, Highlands & Lowlands Berhad)<br><br>Refer to note (a) | GRN 58889, Lot 64303, Mukim Damansara, Daerah Petaling, Negeri Selangor.<br><br>No. 24, Jalan Astaka L U8/L, Bukit Jelutong, Section U8, 40150 Shah Alam, Selangor Darul Ehsan. | Three storey shop office/ vacant | 16 years/ Freehold/ 167 square meters/ 484 square meters | None | 12 October 1999 | 557,650 |
| 2. | OGPC | H.S.(D) 278000, PT No. 35211, Mukim Damansara, Daerah Petaling, Negeri Selangor.<br><br>No. 1, Jalan Riyal U3/37, iParc 3 @ Shah Alam, Seksyen U3, 40150 Shah Alam, Selangor Darul Ehsan. | Three storey semi-detached factory building/ OGPC Group's head office | 2 years/ Freehold/ 1,115.98 square meters/ 672 square meters | None | 10 June 2013 | 3,638,995 |
| 3. | OGPC | H.S.(D) 277999, PT No. 35210, Mukim Damansara, Daerah Petaling, Negeri Selangor.<br><br>No. 3, Jalan Riyal U3/37, iParc 3 @ Shah Alam, Seksyen U3, 40150 Shah Alam, Selangor Darul Ehsan. | Three storey semi-detached factory building/ OGPC Group's head office | 2 years/ Freehold/ 735.8 square meters/ 672 square meters | None | 10 June 2013 | 3,323,635 |

*Note:-*
(a) *The sale and purchase agreement for the property was entered into between OGPC and Highlands & Lowlands Bhd on 8 July 1999. As at the LPD, the property is pending registration of the individual document of title under the name of OGPC at the land office.*

As at LPD, OGPCOG does not own any properties.

The Directors of the OGPC Group have confirmed that none of the properties owned by OGPC as disclosed above are in breach of any land use conditions nor have there been any non-compliance with the applicable prevailing statutory requirements, land rules or building regulations which will have a material adverse impact on the OGPC Group's operations or the utilisation of the OGPC Group's assets on the said properties.

### 6.2 Properties tenanted

As at the LPD, the details of properties tenanted by OGPC are set out below:-

| No. | Name of landlord/ tenant | Location/ Postal address | Description/ Existing use | Approximate Built-up area | Tenure(s) / Period of tenancy | Date of issuance of CF/ CCC / Occupation permit | Rental (RM) |
|---|---|---|---|---|---|---|---|
| 1. | Wong Tiing Song/ OGPC | Lot no 575, Block No 7, Miri Concession Land District<br><br>Lot 575, First Floor, Pelita Commercial Centre, 98000 Miri, Sarawak. | The whole first floor of the three-storey shophouse/ Currently used as service office by the OGPC Group. | 133 square meters | A tenancy for a period of three (3) years from 1 May 2015 to 30 April 2018 | 7 September 1993 | 1,300 per month |
| 2. | Choo Onn Nee/ OGPC | PT 9682, Mukim Chukai, Daerah Kemaman, Negeri Terengganu<br><br>First Floor, No. 9682, Taman Chukai Utama, Jalan Kubang Kurus, 24000 Kemaman, Terengganu. | First floor of a two-storey shophouse/ Currently used as service office by the OGPC Group. | 130 square meters | A tenancy for a period of two (2) years from 1 March 2015 to 28 February 2017 | 19 December 1996 | 650 per month |

As at the LPD, there is no property being rented by OGPCOG.

The Directors of the OGPC Group have confirmed that none of the properties tenanted by OGPC as disclosed above are in breach of any land use conditions nor have there been any non-compliance with the applicable prevailing statutory requirements, land rules or building regulations which will have a material adverse impact on the OGPC Group's operations or the utilisation of the OGPC Group's assets on the said properties.

### 6.3 Plant and equipment owned

As at the LPD, the OGPC Group does not own any material plant and equipment.

### 6.4 Production facilities and operation capacities

Measures of output, capacity and utilisation are not relevant for the OGPC Group's principal business activities in importing, distributing and supplying various ranges of equipment and parts for O&G, petrochemical, power and general industries in Malaysia and other countries.

### 6.5 Material plans to construct, expand or improve facilities

As at the LPD, the OGPC Group does not have any immediate plans to construct, expand or improve on its existing facilities.

### 6.6 Material capital expenditures and divestitures

The OGPC Group has not incurred any other material capital expenditures and divestitures in the past three (3) years (i.e. FYE 2012 to FYE 2014) and up to the LPD.

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## 7. Approvals, major licences and permit

OGPC holds major licences and permits as follows:-

| No. | Licence /Reference No. | Licencee | Subject matter/Description | Validity | General and special conditions |
|---|---|---|---|---|---|
| 1 | 300347-H | PETRONAS | Licences to carry out procurement of material and services. | From 10 August 2015 to 9 August 2018* | The general conditions are, among others:<br>1. OGPC is required to register, obtain a licence, permit or authorisation from the relevant authority to carry out the services or supply of product or material used in company's operation and activities.<br>2. The licence is not transferable to any company/other party.<br>3. OGPC shall inform PETRONAS on any changes related to company's position such as equity ownership, board of Directors and management staff within fourteen (14) days. Failure to do so can result in the licence being revoked.<br>4. The licence is only valid for services and supply of products as stated in the appendix of the PETRONAS licence certificate.<br>5. OGPC is not allowed to take another company as principal, agent, sub-contractor or otherwise to provide any service or supply of any facility, fittings or equipment on its behalf without prior written consent from PETRONAS.<br>6. The licence may be revoked, suspended or blacklisted at any time if any of the conditions specified in the licence and registration and any other conditions set in PETRONAS Licence and Registration General Guidelines are not fulfilled.<br><br>Special conditions:<br>1. Copy of the agency agreement from principal Exterran Energy Solutions LP submitted does not follow the format set by PETRONAS whereby the territory does not cover at least Malaysia oil and gas industry. To submit the complete documents before 30 September 2015, failing which, OGPC will no longer be listed in the PETRONAS List of Licenced / Registered Companies (LLRC) for the relevant standardised work and equipment categories (SWEC). |

| No. | Licence /Reference No. | Licencee | Subject matter/Description | Validity | General and special conditions |
|---|---|---|---|---|---|
| | | | | | 2. OGPC is required to submit a copy of document/certification confirming that the products supplied by principal is following the international standard (e.g. API, ASME) as specified in the Minimum Technical Requirement (MTR) before 31 August 2015, failing which, OGPC will no longer be listed in the PETRONAS List of Licenced / Registered Companies (LLRC) for the relevant standardised work and equipment categories (SWEC). |

Note:-
**The documents required pursuant to the special conditions imposed under the PETRONAS licence are in the process of being submitted to PETRONAS and the renewal of the relevant SWECs under the PETRONAS licence which have expired on 23 July 2015 is pending approval.*

## 7.1 Brand names, registration, patents, trademarks, technical assistance agreement, franchisees and other intellectual property rights

As at the LPD, OGPC and OGPCOG do not own any brand names, patents, trademarks, technical assistance agreement, franchisees and other intellectual property rights.

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## 8. QUALITATIVE ASSESSMENT OF THE OGPC GROUP

### 8.1 Overview

Since its establishment, the OGPC Group has been focusing on importing, distributing and supplying various ranges of specialised equipment including installation and commissioning for the O&G, petrochemical, power and general industries in Malaysia. The OGPC Group will occasionally supply small quantity of its products, which is less than 3% of its revenue, to customers in South East Asia and Turkmenistan, when the orders arise.

In addition to the sale of equipment, the OGPC Group also provides continuous after-sales service which includes inspection, servicing, maintenance, repair work and the supply of parts and components for the installed equipment.

The OGPC Group has undertaken and is capable to act as a Packager for products and equipment supplied by the OGPC Group, which entails the collaboration of in-house and principals' product engineering team as well as other external consultants/fabricators during the initial design stage to meet customers' requirements prior to installation and commissioning, which includes, among other, certain modification of the products/equipment to suit the local condition.

The business focuses for OGPC and OGPCOG are detailed below:-

### 8.2 Products

#### (a) Pumps

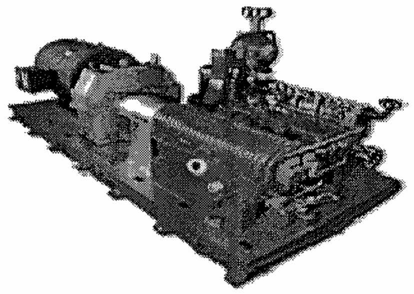
A pump is a device that moves fluids (liquids or gases), or in some cases, slurries, by mechanical action. Pumps can be classified into three major groups, namely direct lift, displacement, and gravity pumps. The O&G industry places some of the toughest demands on pumps for its day-to-day operations for pumping catalyst slurries, closed drain liquids, condensate, corrosion inhibitor, crude oil, drilling mud, multiphase, produced water, and refinery phase water.

The pumps offered by the OGPC Group are designed for heavy industrial applications, mainly for use in the O&G production and refining and petrochemical industries. Most of the pumps supplied comply with American Petroleum Institute ("**API**") Standards and are manufactured to stringent performance and quality standards for safety and reliability.

The OGPC Group currently supplies the following range of pumps:

- Centrifugal pumps (API 610);
- Reciprocating pumps (API 674);
- Process and general application pumps;
- Submersible pumps;
- Overhung pumps;
- Vertical can pumps;
- Barred pumps;
- Fire-fighting pumps (National Fire Protection Association ("**NFPA**")'s NFPA 20, Underwriters Laboratories ("**UL**")/ Factory Mutual ("**FM**")); and
- General American National Standards Institute ("**ANSI**")/ water services pumps.

These pumps are sourced from reputable pump manufacturers which include SPX Clyde Union Limited (UK, USA, Canada, Scotland, and France) and Peerless Pump (USA) with decades of research and development and experience in the O&G sector.

| Centrifugal Pumps | Fire Fighting Pumps |
|---|---|
|  |  |

**(b) Valves**

Valves are mechanical devices that are used to regulate, direct and/or control the flow of fluids or gases by opening, closing or partially obstructing the intended passageways.

Each segment of the O&G industry (upstream, midstream and down-stream) offers its own challenges of extreme conditions for valves. In the upstream segment, valves control the flow of crude oil and natural gas from high-pressure injection systems to choke valves and blow-out preventers at the top of wells. Standard options for this segment include gate valves produced with higher alloy materials and, on occasion, ball valves. They are used for a variety of reasons including resistance to corrosion and damage caused by constant exposure to raw sea water. In addition, these valves offer low-depth sensitivity and have proven over time to perform well in this high- pressure, remote environment.

The midstream segment, storage and transportation of O&G resources from remote sources such as the deep-water fields have another unique set of conditions. Long pipelines require compressors along the way to keep the product moving, and valves are used to protect equipment while offering minimal restriction to the flow. In midstream applications that involve transportation of O&G, isolation valves play an important role in pipelines. There are primarily two types of pipelines for the power industry, those for oil and those for natural gas. Within each group are subsets that serve specific applications.

The third industry segment (down-stream) brings challenges to find solutions for the refining process of crude oil, as well as the sale and distribution of both the refined product (i.e. gasoline, fuel, asphalt, etc.) and natural gas. This sector is made up of industrial, retail and distribution businesses and is the segment that provides products such as heating and transportation fuels to consumers and businesses where valve requirements for the downstream market include higher pressure designs and metal-seating technology and metallurgies to accommodate the temperatures at which modern refineries operate.

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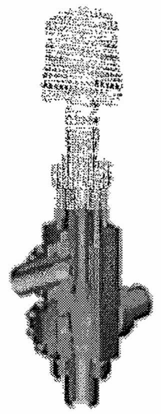
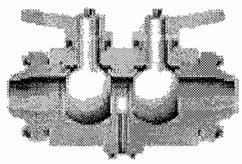
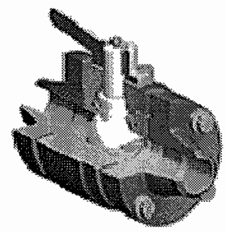
The OGPC Group provides technical services and supply of engineered valves for production and test valve manifolds, injection valves manifolds, ball valves, check valves, popper diverter valves, ball diverter valves and throttle ball valves for all the O&G industry segments, with exclusive arrangement with FMC Fluid Control, which has been manufacturing valves for more than thirty (30) years.

<table>
<tr><td rowspan="2"><br>**Poppet Diverter Valves**</td><td><br>**Compact Floating Ball Valves**</td></tr>
<tr><td><br>**Throttle Valves**</td></tr>
</table>

(c) **Compressors**

A compressor is a mechanical device that increases the pressure of gas by reducing its volume. An air compressor is a specific type of gas compressor.

Compressors are similar to pumps: both are designed to boost the flowing pressure of a fluid and both can transport the fluid through a pipe. As gases are compressible, the compressor also reduces the volume of a gas. Liquids are relatively incompressible; while some can be compressed, the main action of a pump is to pressurise and transport liquids.

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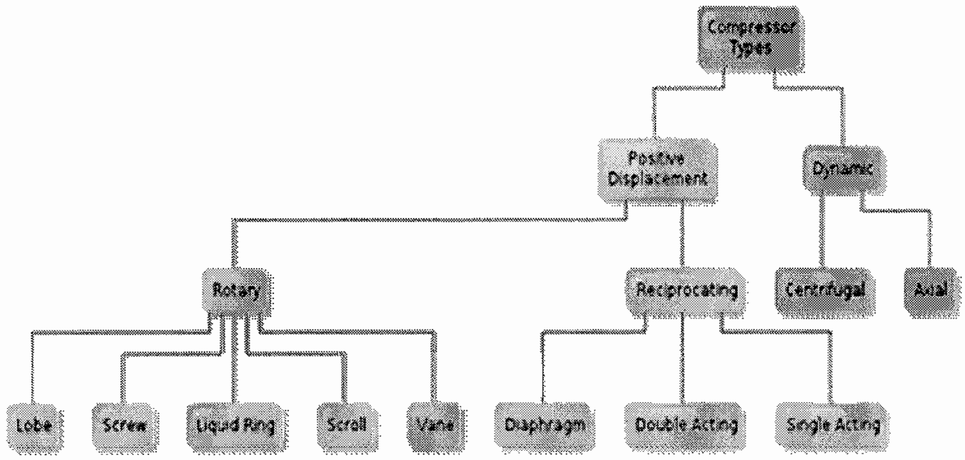
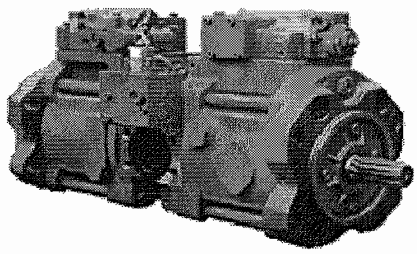
The main types of gas compressors are illustrated and discussed below:



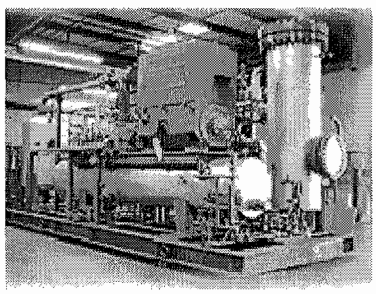

**Centrifugal compressors** use a rotating disk or impeller in a shaped housing to force the gas to the rim of the impeller, increasing the velocity of the gas. A diffuser (divergent duct) section converts the velocity energy to pressure energy primarily used for continuous, stationary service in industries such as oil refineries, chemical and petrochemical plants and natural gas processing plants.

**Reciprocating compressors** use pistons driven by a crankshaft, either stationary or portable, can be single or multi-staged, and can be driven by electric motors or internal combustion engines.

**Rotary screw compressors** use two meshed rotating positive-displacement helical screws to force the gas into a smaller space. These are usually used for continuous operation in commercial and industrial applications and may be either stationary or portable.



**Centrifugal Compressors**



**Rotary Compressor Systems**

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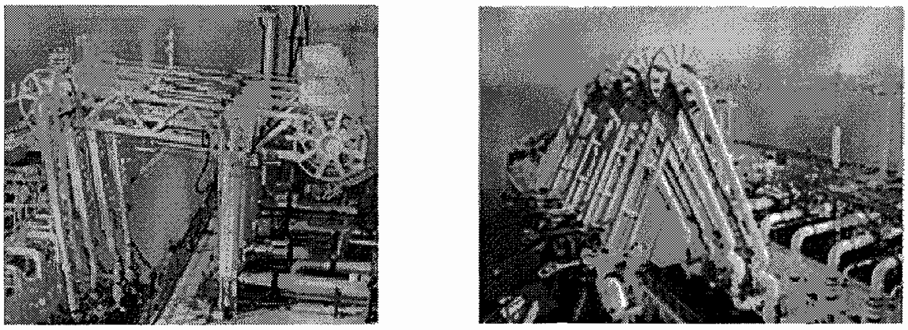
**(d) Loading arms**

Marine loading arm, also known as a mechanical loading arm, or MLA is a device consisting of articulated steel pipes that connect a tank ship such as an oil tanker or chemical tanker to a cargo terminal. It is an alternative to direct hose hook-ups and is particularly useful for larger vessels and transfers at higher loading rates and pressures. Controlled manually or hydraulically, a loading arm employs swivel joints and can, to some extent, follow the movement of a moored vessel.

Loading arm installation may include add-ons such as hydraulic or manual quick connect couplers, position monitoring systems, emergency release systems, and piggyback vapor return lines.

The OGPC Group's loading arms product and services are applied onshore and offshore i.e. loading/unloading arms for liquid petroleum/chemical products, liquefied petroleum/natural gas, cryogenic loading arm for truck and railcar loading/unloading with exclusive arrangement with FMC.



**Loading Arm System**

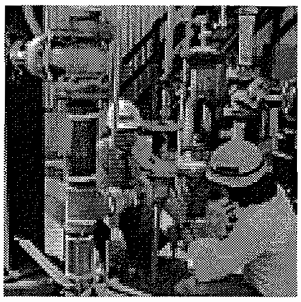
**(e) Heating systems**

A heat management system ("**HMS**") is an engineered system designed to maintain or protect process piping, equipment, vessels and instrumentation at pre-determined temperatures, and within defined design criteria. HMS components include heat delivery system, utility distribution system, control and monitoring system, thermal insulation system, and heated instrument enclosures.

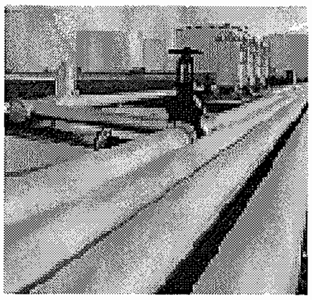
The OGPC Group offers complete HMS for O&G customers, starting from the engineering, procurement and fabrication, site services and post-installation services. It includes full range of heating systems, self-regulating heating cables, mineral insulation heating cables, heated tubing bundles, long line heating systems, tank heaters, and thermal insulation with principal arrangement with Tyco Thermal Control and Tyco Flow Controls of USA.

For information purpose, Tyco Thermal Control and Tyco Flow Controls of USA are amongst two of the divisions within Tyco group of companies ("**Tyco Group**"). In 2012, the two divisions were spun off into Tyco Flow Controls, which in turn, merged with Pentair Inc. Tyco Thermal Control which has been renamed as Pentair Thermal Solution is the manufacturer for the electrical heat tracing system in Shanghai/Belgium while Tyco Flow Controls, which has been renamed as Pentair Valves & Controls is the manufacturer for the various type of valves including pressure safety relief valves in USA/France/Shanghai.

Tyco Group is a manufacturer of electric heat-tracing systems, combining years of experience and expertise with the most extensive range of technologies, products, systems and services available from any single supplier in the field.



**Electric Heat Tracing Systems**

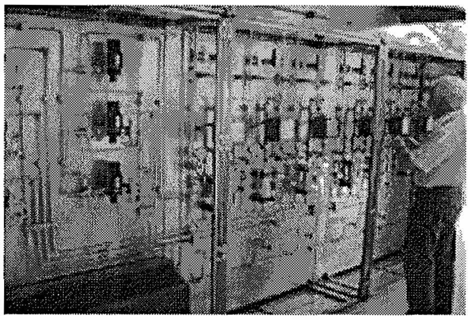


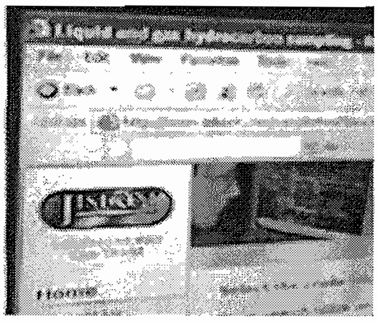
**Long Line Heating Systems**

**(f) Sampling systems**

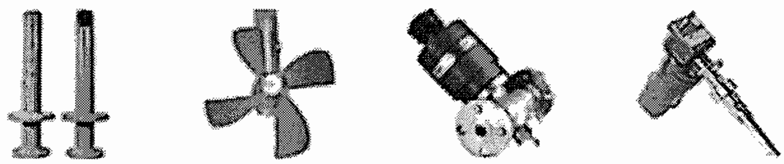
Sampling and analysis systems for O&G industry are applied for obtaining true and accurate values for LNG analysis, British Thermal Unit analysis, specific gravity analysis and/or compositional analysis. The key feature for an accurate product analysis is having a representative sample of gas or liquid which is required to obtain a true representation of the actual flow through a process line over a given period (for example day, week or month).

OGPC is able to provide customised sampling system which prepares, withdraws and stores sample, based upon proven design and techniques and in accordance to various local/authority standards with the sampling systems. The OGPC Group's HMS production solutions include Liquid Probe/Cell Sampler, Gas Sampler, Pipeline Mixers, Flow Meters, Loop Extractors, Sample Receivers, Control Systems, Laboratory Equipment, On-Line measurement devises.





**Sampling and Analysis Systems**



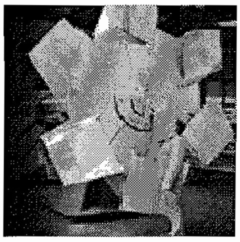
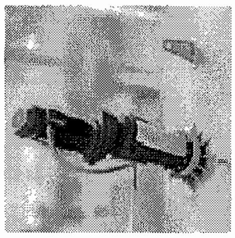
**Sampling Products**

**(g) Agitators**

An agitator is a device or mechanism to put something into motion by shaking or stirring. Mud mixing is a key component of any O&G operation. Control of mud mixing or drilling fluids can be a significant determinant of a drilling operation as related to well bore problems. Management of viscosities specific gravities and chemical compositions are key to the mud mixing and the circulation system.

An industrial agitator for mud mixing is used to guarantee the quality of the drilling fluids. This line of mixers can be used in production or at the point of application. Often, the ability to use the mixers in the field is just as important to the success of the drilling operation. Drilling fluids serve many functions in O&G acquisition, from removing well cuttings, to maintaining wellbore stability and controlling corrosion. The composition of the drilling muds is critical to efficiently acquiring resources and maintaining well bore.

The OGPC Group is also capable of providing agitators as well as related technical services to its O&G customers. It currently provides two types of agitators, shown in the table below.

| | |
|---|---|
|  **Reactor Agitators for Industrial Mixing and Blending** |  **Customised Agitators** |

**(h) Flare system**

A gas flare system, alternatively known as a flare stack, is a gas combustion device used in industrial plants such as petroleum refineries, chemical plants and natural gas processing plants, as well as at oil or gas production sites having oil wells, gas wells, offshore O&G rigs and landfills.

When petroleum crude oil is extracted and produced from onshore or offshore oil wells, raw natural gas associated with the oil is produced to the surface as well. Especially in areas of the world lacking pipelines and other gas transportation infrastructure, vast amounts of such associated gas are commonly flared as waste or unusable gas. The flaring of associated gas may occur at the top of a vertical flare stack (shown below) or it may occur in a ground-level flare in an earthen pit.

OGPC is pioneering the use of remote flare system for the Sarawak Shell Berhad/Sarawak Shell Petroleum Co South Furious field in 2002 where a special low voltage electrical ignition system is installed and used to ignite the flare gas.

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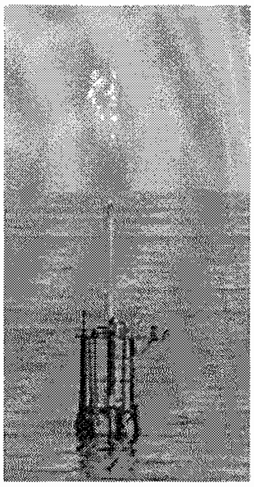
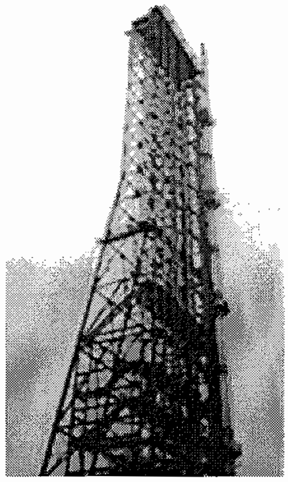
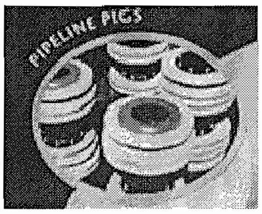
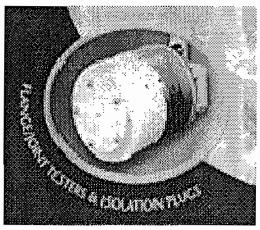
|  |  |
|---|---|
| **Special Flare System at SSB/SSPC South Furious Field** | **AES-S-SP Flare Burner** |

**(i) Pipeline pigging**

The OGPC Group is also capable of providing various range of pipeline intervention gadgets ('**Pigs**") and associated services, also known as "pigging". A "pig" in the pipeline industry is a tool that is sent down a pipeline and propelled by the pressure of the product flow in the pipeline itself to perform various maintenance operations on a pipeline. This is done without stopping the flow of the product in the pipeline. Pigging in the context of pipelines refers to the practice of pigs.

There are four main uses for pigs, namely physical separation between different fluids flowing through the pipeline/gel pigs; internal cleaning of pipelines/utility pigs; inspection of the condition of pipeline walls (also known as an Inline Inspection tool)/inspection pigs; and capturing and recording geometric information relating to pipelines (e.g., size, position)/specialty pigs.

The maintenance tool, pipeline pigs are introduced into the line via a pig trap, which includes a launcher and receiver. Without interrupting flow, the pig is then forced through it by product flow, or it can be towed by another device or cable. Usually cylindrical or spherical, pigs sweep the line by scraping the sides of the pipeline and pushing debris ahead. As the travel along the pipeline, there are a number functions the pig can perform, from clearing the line to inspecting the interior.

|  |  |  |
|---|---|---|
| **Pipeline Pigs** | **Flange/Joint Tester and Isolation Plugs** | **Installation of pigs** |

In this respect, the OGPC Group works with Pipeline Engineering & Supply Company Ltd, UK. The OGPC Group's services in this segment include the provision of a full range of pipeline pigging tools, pig signallers (provide confirmation of the movement of pipeline pigs through a pipeline), pig launchers and pig receivers, and quick opening closures.

In addition to the above, the OGPC Group also provides pipeline planned cleaning programme aimed to prevent the build-up of debris or deposits. The cleaning of production pipeline services includes:

(i) Data gathering/ site surveys;
(ii) Pre-inspection cleaning;
(iii) Preparation of cleaning methodology;
(iv) Preparation of pigging procedures;
(v) Design, testing and validation of specialist cleaning tools;
(vi) Supply of specialist cleaning tools and cleaning equipment;
(vii) Progressive cleaning of pipelines;
(viii) Execution of field operations;
(ix) Management of third party services;
(x) Hazard / risk assessments; and
(xi) Design, fabrication and installation of pig launchers/receivers.

**8.3 After-sales services**

In addition to the sales of products and equipment, the OGPC Group also provides a wide range of after-sales services which include the followings:

(a) Filter retrofit;
(b) Pump servicing, repairing and alignment;
(c) Pipeline cleaning and pigging;
(d) Marine loading arm fabrication, servicing, maintenance and inspection;
(e) Compact manifold system fabrication and testing;
(f) Steam trap servicing and survey;
(g) Safety relief valve servicing and testing;
(h) Valve servicing, maintenance and testing; and
(i) Pipeline insulation & heat tracing.

The OGPC Group also offers a wide range of specialist underwater services and it aims to provide a range of underwater services, which includes underwater inspection, repair and maintenance. The underwater services that the OGPC Group provides include:

(a) Surface oriented air diving services;
(b) Saturation diving services;
(c) Remotely operated vehicle ("**ROV**") services; and
(d) Underwater engineering, construction and maintenance services.

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## 8.4 Revenue segmentation by products and engineering services

The OGPC Group's revenue segmentation by products and services for the FYE 2014 is as follows:

| | Revenue for the FYE 2014 | |
|---|---|---|
| | RM'000 | % |
| **Revenue from sale of equipment** | | |
| Pumps | 23,952 | 26.8 |
| Valves | 13,504 | 15.1 |
| Heating systems | 6,814 | 7.6 |
| Sampling systems | 6,589 | 7.4 |
| Loading arms | 5,401 | 6.0 |
| Filters | 3,387 | 3.8 |
| Pipeline pigging | 3,233 | 3.6 |
| Flare system | 3,727 | 4.2 |
| Software | 2,440 | 2.7 |
| Compressors | 1,989 | 2.2 |
| Fire fighting pumps | 1,860 | 2.1 |
| Agitators | 983 | 1.1 |
| Mechanical seal | 289 | 0.3 |
| Ancillary equipment, parts and components | 4,393 | 5.0 |
| | 78,561 | 87.9 |
| **Revenue from engineering services** | 10,745 | 12.1 |
| TOTAL | 89,306 | 100.0 |

For the FYE 2014, revenue of the OGPC Group comprised mainly sales of equipment which amounted to RM78.6 million or 87.9% of the total revenue. Sale of pumps, which accounted for 26.8% of the total revenue, was the highest contributor to the total revenue. This is followed by sale of valves, heating systems, sampling systems and loading arms at 15.1%, 7.6%, 7.4% and 6.0% of the total revenue respectively. Revenue from services accounted for 12.1% of the total revenue of the OGPC Group.

The product mix for any financial years depends highly on the type of projects undertaken by the industry players and the requirements of the customers of the OGPC Group. The sale of specialised equipment is important as this will create further opportunities for future generation of sale of spare parts and the provision of after-sales services.

## 8.5 Quality management programmes

The OGPC Group has to follow stringent technical and quality assurance management programmes set by its customers and principals. These include the ISO certification, API standard, as well as PETRONAS standard and policy requirements.

OGPC's PETRONAS license also means that OGPC will have to meet the technical requirements for the scope of work based on a set of Standardised Work & Equipment Categories, which allows the holder of the license to participate in the upstream sector, downstream sector and maritime sector of the O&G industry.

In continuous compliance with these technical requirements, the OGPC Group participates in the training and events organised by its principals and customers.

OGPC has established a quality, health, safety, security & environment ("**QHSSE**") policy to ensure certain QHSSE standards are adopted and maintained in the provision of its services to its customers. Its QHSSE policy includes implementing, inter alia, the following:

(a) qualified and competent personnel, adequate resources and leadership required to meet clients', authorities' and stakeholders' QHSSE;

(b) have reliable and visible QHSSE statistic record, QHSSE data and QHSSE improvement programme;

(c) safety is the first priority. Should stop work immediately if the work condition is at risk to employees, properties, environment or/and public;

(d) security and risk control measures in all our activities to eliminate, prevent or reduce risk to as low a reasonably practicable; and

(e) establish safeguard and proper response team to handle emergency situation.

OGPC is preparing to be accredited with ISO 9001, 14001 and 18001 and has appointed Excecpro Consult as their consultant for this purpose on 1 July 2015.

Due to the nature of the Group's operations, wherein products are mostly delivered from suppliers directly to the customers, quality inspections will be performed by customers at their premises. Some customers will request the OGPC Group to send its representatives to perform joint inspection. Should there be any non-conformance or defects in products, the supplier will be notified and the supplier will decide whether to send its representative to rectify the issues at customers' site or to return the products to their factory for rectification work.

In continuous compliance with the technical requirements, the OGPC Group sends its employees to be trained in courses organised by its principals and customers to further equip its employees with the required knowledge and skills.

### 8.6 The operating of trading mechanisms

The general process flow of OGPC's supply of specialised equipment and engineering and technical support services is summarised in the following diagram:-

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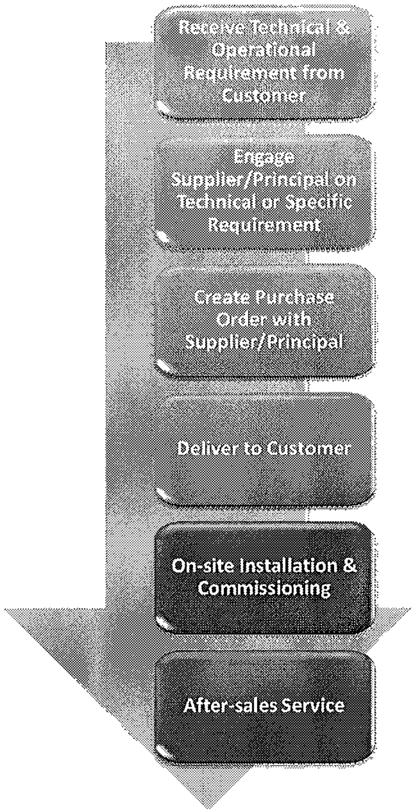


**Receive technical & operational requirement from customer**

Upon receiving customer's requirement, the OGPC Group's technical team will identify and understand the concept of operation in terms of needs and expectations, cost, technologies, and performance requirement.

**Engage supplier/principal on technical or specific requirement**

Once the technical and operational requirements are confirmed, the team will engage the related supplier/principal for the project. In some cases, customers will specify the supplier/principal for the project. For such cases, the OGPC Group will appoint the service of supplier's/principal's technical team. On rare occasions, if the supplier of a particular product specified by the customer is different from the supplier/principal that the OGPC Group has entered into an exclusive agreement with the OGPC Group will or obtain written consent from the supplier/principal, in required, before dealing with other suppliers. In other circumstances, the OGPC Group technical team may collaborate with the supplier/principal's engineering team as well as other external consultants/fabricators during the initial design stage such as piping layout and associated dimensions should the need arises prior to installation and commissioning.

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**Create purchase order with supplier/principal**

Once the customer and the OGPC Group agreed with the working arrangement, a purchase order will be issued to its supplier/principal to place the order.

**Deliver to customer**

The OGPC Group will then work with the supplier/principal to ship the ordered equipment from the supplier's/principal's premises to the intended location. The services of shipping agents are used for the shipment of equipment, and the ordered equipment are often shipped directly to customers' yard or warehouse.

International Commercial Terms ("**Incoterms**") 2010 or Incoterms 2000 is applied for the delivery. Incoterms are a series of pre-defined commercial terms published by International Chamber of Commerce which are widely used in international commercial transactions or procurement processes.

**On-site installation & commissioning**

Depending on the type of working arrangement, the OGPC Group also offers on-site installation and commissioning for some of the products and equipment supplied. The OGPC Group's installation and commissioning personnel or sub-contractor will be sent to the yard or site to install and commission the equipment once it has reached the intended location. In some cases where products or equipment are delivered as a project system package, the OGPC Group in collaboration with its supplier/principal and other external consultants/fabricators will jointly install and commission the project.

**After-sales services**

The OGPC Group also provides after-sales services which include inspection, servicing and repair work for products and equipment supplied to its customers. Please refer to Section 8.3 of this Appendix I(A) for more information.

### 8.7 Types, sources and availability of resources

The OGPC Group sources its products from various suppliers/principals worldwide that have been in the business for decades. Such products are needed for the continued operations of the O&G industry.

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For the FYE 2014, the OGPC Group's cost of goods sold reached RM57.4 million and the breakdown of the products are as follows:-

| Products | Value of Purchases for FYE 2014 | | Location of Suppliers/Principals | | |
|---|---|---|---|---|---|
| | | | Europe | North America | Asia |
| | RM'000 | % | % | % | % |
| Pumps | 18,267 | 31.8 | 16.6 | 6.5 | 8.7 |
| Valves | 9,425 | 16.4 | - | 2.1 | 14.3 |
| Sampling system | 3,694 | 6.5 | 6.5 | - | - |
| Heating system | 3,401 | 5.9 | - | - | 5.9 |
| Filter | 2,421 | 4.2 | 4.2 | - | - |
| Software | 2,069 | 3.6 | - | 3.6 | - |
| Pipeline pigging | 1,841 | 3.2 | 3.2 | - | - |
| Flares systems | 2,337 | 4.1 | 0.9 | - | 3.2 |
| Fire fighting pumps | 1,501 | 2.6 | - | 2.6 | - |
| Compressors | 1,521 | 2.6 | - | 0.2 | 2.4 |
| Loading arms | 1,104 | 1.9 | 1.9 | - | - |
| Agitators | 852 | 1.5 | 0.5 | - | 1.0 |
| Mechanical seal | 236 | 0.4 | - | - | 0.4 |
| Others | 8,739 | 15.3 | - | - | - |
| TOTAL | 57,408 | 100.0 | 33.8 | 15.0 | 35.9 |

Note:-
- *Other products consist of ancillary equipment, parts and components sourced from various locations including custom duties and freight and handling charges and sub-contractors.*

Pumps were the largest purchase for the FYE 2014, representing 31.8% of the total purchases. The OGPC Group sources 52.1%, 20.4% and 27.5% of its pumps from suppliers in Europe, North America and Asia respectively. Other than pumps, the OGPC Group also sources its sampling systems, filters, pipeline pigging, loading arms and about 34% of the agitators and a small amount of its flare system from suppliers in Europe. Purchase of software, fire fighting pumps, about 12.6% of valves and 8% of compressors are sourced from the USA while the heating system, more than 75% of the flares system, more than 90% of the compressors, about 87.4% of valves and 66.4% of agitators are sourced from Asia.

## 8.8 Strategy and modes of marketing

### 8.8.1 Marketing strategies and activities

The following marketing strategies are employed by the OGPC Group to sustain and expand the business:

(a) Keep abreast in the technological advancement for products and services via trade fairs and direct meetings with suppliers/principals and technology providers;

(b) Keep abreast in the commercial development in particular development of its customers in relation to new project planning and improvements required on current plant operations by constantly keeping in touch with its customers, including PETRONAS;

(c) Communicating directly with customers rather than through third parties to provide personal touch and better understanding of their technical and operational requirements and provide suggestions and/or recommendations on the most relevant technologies available in the market;

(d) Work with customers from the early stage of project development such as during design, front end engineering and detailed engineering work for the project;

(e) Highlight the most relevant technology used in a wide range of specialised equipment in the market and identify suitable product/solution to customers;

(f) Position the OGPC Group as engineering and technical support service providers and supplier of specialised engineered equipment and;

(g) Continue to meet and exceed the quality and reliability expectations of customers.

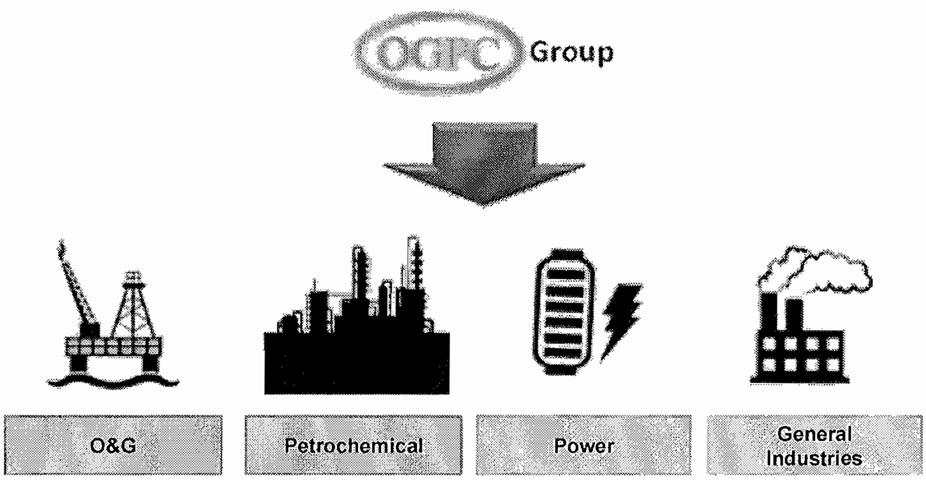
In addition, the OGPC Group also undertakes the following promotional and marketing activities:

(h) Participation in trade fairs and exhibitions; and

(i) Continuously creating awareness to its customers on new technology, products and plant operational improvements.

### 8.8.2 Distribution channel strategy

The OGPC Group adopts a direct distribution channel strategy whereby sales are generated through its in-house engineering/technical team, as depicted in the diagram below.




The OGPC Group do not use any third (3$^{rd}$) party agent or distributor.

The OGPC Group has 42, 40 and 43 employees as at end of the financial years under review of FYE 2012, FYE 2013 and FYE 2014 respectively.

As at the LPD, the OGPC Group has 49 employees, all of which are Malaysians. Out of 49 employees, around 53% of the staff are involved in engineering and technical sales related activities. The breakdown of employees by department are as follows:

| Department | Total number of employees | Average year(s) of services | | | |
|---|---|---|---|---|---|
| | | <1 year | 1 – 5 years | 6 – 10 years | >10 years |
| Directors' office* | 3 | - | - | - | 3 |
| Human Resource, Accounts and Administration | 10 | 2 | 2 | 0 | 6 |
| Documentation and Logistic | 4 | - | 3 | - | 1 |
| Product sales, Project and Services** | 22 | 4 | 10 | 6 | 2 |
| Sales and Marketing* | 4 | - | 3 | 1 | - |
| Internal Audit | 1 | 1 | - | - | - |
| Quality, Health, Safety and Environment (QHSE) | 5 | 3 | 2 | - | - |
| **Total employees** | **49** | **10** | **20** | **7** | **12** |

*Note:-*

* *Involved in engineering and technical sales related activities.*

** *19 out of the 22 staff are involved in engineering and technical sales related activities.*

The Kemaman and Miri branches will continue liaising with the head office for sales and after-sales services.

## 8.9 Technology used/To be used

The products and equipment supplied by the OGPC Group are manufactured and produced by its principals using their proprietary technologies. These technologies are developed by long standing international manufacturers that have been producing products for the global O&G industry.

The agreements with the suppliers/principals provide the OGPC Group with the advantage of assessing these technologies and its applications for the local O&G industry as well as providing after-sales services for the products.

## 8.10 Research and development

The OGPC Group is not directly involved in the development, design and manufacturing of the specialised engineered equipment, which are undertaken by the principals.

However, the OGPC Group provide value add by bringing in its field experience to the principals during this development work to ensure that the products and equipment delivered meet the customers' requirements in terms of product reliability and economic benefits.

## 8.11 Seasonality

In general, the OGPC Group's business is not affected by seasonality factors.

## 8.12 Regulatory requirement and environmental issue

Save as disclosed in Section 8.20 of this Appendix I(A), there are no regulatory requirement and environmental issue which may materially affect the OGPC Group's operations and utilisation of assets.

## 8.13 Principal markets

The OGPC Group supplies principally to customers in Malaysia with occasional less than 3% of its annual revenue coming from overseas market for the past 3 FYEs.

## 8.14 Overall industry structure

The OFSE industry plays an important supporting role to the upstream sector through the provision of services and equipment that are required for E&P activities. Generally, the provision of services and equipment by the OFSE industry can be categorised into seven (7) main segments, namely reservoir information, drilling equipment and services, rig and equipment, completion equipment and services, production equipment and services, infrastructure, and lastly, logistics and support services.

The different segments of the OFSE industry caters to different stages in the E&P activities. Out of the four stages of E&P activities (i.e. formation evaluation, exploration and appraisal, field development and operations and maintenance), field development is the most expenditure intensive and dependent on the OFSE industry for the provision of rig and equipment, drilling equipment and services, completion equipment and services, and infrastructure, logistics and other support services.

The OGPC Group is involved in the OFSE industry with the provision of completion equipment and services, as well as production equipment and services.

*(Source: IMRR)*

## 8.15 OGPC Group's positioning

The OGPC Group's positioning is within the supply chain of the OFSE industry.

The OGPC Group has exclusive agreements with its suppliers/principals which allow the OGPC Group to supply and to provide services of specialised equipment including pumps, compressors, valves, filters, loading arms, heating systems, pipeline pigging and sampling systems among others. The specialised equipment and the principal's technical support to the OGPC Group are required across the O&G value chain.

Pumps for example are used in the following whole spectrum of the O&G value chain:

(a) Oil production – injection, crude oil booster and pipeline, main oil line, seawater lift, firefighting, subsea multiphase, single phase and hybrid/associated auxiliary, crude shipping;

(b) FPSO - FPSO pumps for injection, firewater, seawater lift, offloading process and auxiliary;

(c) Pipelines – booster pumps and main line pipeline pumps for upstream and mid-stream applications, crude oil diluted bitumen, diluent, natural gas liquids, refinery products and petrochemicals, super critical ethylene etc.; and

(d) Pump services – diagnostic and consulting, maintenance and support, technical and economic optimization through retrofits.

Hence, the OGPC Group has positioned itself to provide engineering and technical support services and supply of specialised equipment across the O&G industry, be it for new development of projects, or during project operations period through periodic inspection, services and maintenance.

### 8.16 Substitute products

There is no substitution for the OFSE industry. The market plays a supporting role to the O&G industry, and market players function as suppliers for all services and equipment pertaining to E&P activities of hydrocarbon.

*(Source: IMRR)*

### 8.17 Supply dependency

The oil, gas and energy industry has been identified as one of the National Key Economic Area ("**NKEA**") under the ETP and it is forecasted to bring in an additional of RM131.4 billion of Gross National Income ("**GNI**") by 2020. The Malaysian OFSE industry is set to grow as the Government aims to position Malaysia as an OFSE hub for Asia Pacific as outlined under the oil, gas and energy NKEA of the ETP.

This move helps to transform the country into a cost-efficient base for engineering, procurement, installation and commissioning activities in the Asia Pacific region. As outlined under EPP 6, the Government focuses on attracting international firms, especially technology-based companies, to use Malaysia as a base for their regional operations as well as encourage domestic direct investments to acquire proprietary technology and capital-intensive assets.

In addition, EPP 8 targets to encourage multinational firms to relocate or start up regional operations in Malaysia and to start up joint ventures with local O&G services and equipment firms. This will help to strengthen local companies' competitiveness in domestic and international job tenders.

The involvement of foreign players helps to strengthen the competitiveness of local OFSE players, especially the fabricators, in both domestic and international job tenders. Therefore, the sub-contractors in the OFSE industry are likely to benefit from this as more equipment and services will then be required by the fabricators.

*(Source: IMRR)*

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## 8.18 Demand dependency

The demand for the OFSE products and services of the OGPC Group comes from local consumption and exports, which are dependent on user industries. The products and services of the OGPC Group supplied by the OGPC Group is used by the O&G, petrochemical, power and general industries usage. Demand from the O&G industry is set to be sustainable moving forward, among others, due to the following:

(a) continuous investment in the upstream sector of the O&G industry;

(b) increasing push towards unconventional exploration and production activities and revitalising mature fields; and

(c) fossil fuels persist as the main energy source.

**Continuous investment in the upstream sector of the O&G industry**

The Malaysian O&G industry continues to invest and develop its upstream sector, which brings derived demand for the service offerings of the OFSE industry. Investments and further development in the upstream sector include PETRONAS' activities, such as partnering with foreign contractors that possess the technologies and know-how to exploit deepwater and mature fields. The first deepwater field, Kikeh field in Sabah, with water depth of 1,341 metres went on-stream in 2007 as a result of collaboration between PETRONAS Carigali and Murphy Oil. With the assistance of foreign players, PETRONAS has also begun revitalising its matured field via EOR technology. One of them is the Baram oilfield project that is being co-developed by PETRONAS and Shell.

In terms of PETRONAS' expenditure in the upstream sector in particular for exploration, development and production activities, a total of RM52.32 billion was spent in 2014, up by approximately 44.5% compared to the previous year's expenditure of approximately RM36.22 billion. Out of the expenditure of RM52.32 billion, 54.0 percent or RM28.25 billion was invested in Malaysia.

Despite anticipation of continuous investment, the OFSE industry may see reduced demand from the O&G industry going forward as the industry shies away or defers from making new investments due to unfavourable oil prices. To date, crude oil price remained on the low side (as compared to over USD100 per barrel in previous years), with price slipped to below USD40.0 per barrel in December 2015. As part of PETRONAS's cost rationalization initiative, operating expenditure has been cut by 24.0% to mitigate the decline in oil prices. Therefore, demand for products and services from the OFSE industry could be affected in the short term (2015 to 2016). Nonetheless, the impact could be offset by an increase in PETRONAS capital expenditure for the overall oil and gas industry to RM70 billion in 2015 as compared to RM60 billion in 2014.

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**Increasing push towards unconventional exploration and production activities and revitalising mature fields**

There has been a decreasing trend in oil reserves discovered in shallow water fields. Meanwhile, the maturity of domestic fields, after years of steady and continuous production has resulted in lower production. Hence, the trend is shifting towards the deep and ultra-deep-water exploration and production, looking into the development of marginal fields as well as revitalise mature fields to increase the remaining output.

Malaysia's O&G reserves are located in geologically complex frontier acreages where in 2010, approximately 14.5% of total reserves lie in deep-water blocks while another 22.6% of gas reserves have a high content of carbon dioxide. PETRONAS' discovery of gas reserves from the country's first High Pressure High Temperature well in the Kinabalu field offshore Sabah marked a key milestone for the O&G industry and potentially opens up new exploration prospective for deeper reservoirs.

In addition, marginal fields that typically hold less than 30 million barrels of reserve are also being looked into as a potential source of development. Due to the small size of the reserve, major O&G players often pay little interest towards marginal fields. Therefore, PETRONAS implemented the Risk Service Contract ("**RSC**") model for marginal field contracts to motivate and encourage smaller players to participate in the development of marginal fields. This is certainly an advantage for smaller players as a RSC is more flexible than the usual Production Sharing Contracts ("**PSC**") mechanism.

Nonetheless, PETRONAS has announced a cut in its operating expenditure by 24.0%. Therefore, demand for products and services from the OFSE industry could be affected in the short term (2015 to 2016). Nonetheless, the impact could be offset by an increase in PETRONAS capital expenditure for the overall oil and gas industry to RM70 billion in 2015 as compared to RM60 billion in 2014.

**Fossil fuels persist as the main energy source**

Within Malaysia, the demand for energy is growing at a pace correlated with the industrialisation and economic development of the country.

Despite the Government's recent effort to diversify the country's energy sources and promote the use of renewable energy, fossil fuels remain the most important source of energy supply in Malaysia. In 2013, petroleum products alone accounted for 57.0% of total energy consumption while natural gas made up another 21.9%. Coal and coke formed another 3.0% of total energy consumption electricity formed 20.5%. In terms of electricity generation, the sector again possesses relatively high reliance on fossil fuels. In 2013, gas was the main energy source for electricity generation, constituting about 50.5% of total electricity generation. Coal comes second with 38.1% of total electricity generation. Hydro contributed 8.3% whereas diesel and oil respectively contributed 1.1% each in 2013.

This shows that Malaysia relies heavily on fossil fuels especially that from the O&G industry, for her energy supply. Despite the Government's ambition to increase the shares of renewable energy as outlined in the Eleventh Malaysia Plan, the demand for fossil fuels is not likely to decrease and renewable energy is likely serve only as a supplement to fossil fuels. Therefore, Malaysia's dependence on fossil fuel for energy is anticipated to remain over the forecast period.

*(Source: IMRR)*

## 8.19 Nature of competition in the industry

The OFSE industry is highly competitive and comprises around 4,000 market participants with high degree of differentiation and diversification in terms of technical expertise, product/ services offerings, as well as business models by market participants. Market participants of various sizes may cater to different sets of clienteles depending on their technical expertise, or they may focus on certain product / services ranges and types. These market participants can be broadly grouped into two (2) categories i.e. the fabricators and sub-contractors as follows:

**Fabricators**

Fabricators participate in the OFSE industry through the provision of E&P facilities development services to PSC contractors. The provision of E&P facilities development services ranges from fabrication of new E&P facilities to conversion or refurbishment of existing E&P facilities. These fabricators are companies with strong technical background and are capable of carrying out large-scale integrated projects. Fabricators are likely to assume the lead role in the projects and delegate different packages of works to sub-contractors. In addition, some OFSE fabricators that are awarded with RSC may also assume this role.

Number of market participants in the fabrication segment is limited by the local technical expertise and capabilities in carrying out a facilities development project. Therefore, it is common for local fabricators to team up or partner with foreign players to supplement their operations. This helps the local fabricators to boost their technical profile and keep them abreast of the latest technological development in the industry. Fabricators in the OFSE industry include SapuraKencana, Malaysian Marine and Heavy Engineering Sdn Bhd ("**MMHE**"), TH Heavy Engineering Berhad, Boustead Heavy Industries Corporation Berhad, Labuan Shipyard & Engineering Sdn Bhd, Brooke Dockyard and Engineering Works Corporation, KKB Engineering Berhad and Muhibbah Engineering (M) Berhad.

**Sub-contractors**

The sub-contractors in the OFSE industry consist of players that provide various services and services to supplement the completion of an E&P project. This includes OFSE players that supply individual equipment and spare parts to the fabricators. These sub-contractors deal mainly with the fabricators via service tenders by the fabricators or equipment procurement for the fabricators, although the sub-contractors also hold the opportunity to supply directly to the PSC. Leveraging on their knowledge on equipment and spare parts, some sub-contractors are also involved in the provision of maintenance services.

The OGPC Group, for example, is a market participant in the sub-contracting segment with the provision of equipment and spare parts of foreign brands to the fabricators, in addition to the provision of equipment maintenance services.

*(Source: IMRR)*

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## 8.20 Barriers to Entry

Barriers to entry are factors that affect the entry of new players into the said industry. Industries with high barriers to entry are more difficult for new market players to penetrate; these barriers to entry prevent or discourage new market players from establishing themselves as strong competitors, and often limit their growth potential. Low barriers to entry allow easy entrance of new market players and are conducive for facilitating a greater number of new market players.

**Government policies** - The O&G industry in the country is regulated by PETRONAS. All participants who intend to supply goods and services to O&G industry in Malaysia are required to obtain a license from PETRONAS or be registered with PETRONAS. This policy is implemented to ensure the quality of services and products provided to the O&G industry and to maintain the safety standard within the industry. The possibility of failing to secure a PETRONAS license or being registered with PETRONAS could essentially forbid one from participating in the Malaysian O&G industry. Hence, obtaining a license becomes a crucial issue for new entrant to join the market.

**Product and Technical Knowledge** - Product and technical knowledge is important in the OFSE industry as the requirement varies for onshore and offshore projects. Having extensive product and technical knowledge allows a market participant to understand the customers' requirements for respective project thus specifying and supplying the right products accordingly. This products and technical knowledge typically comes along with industrial experience. Leveraging on the product and technical knowledge, market players may also offer value-added engineering solutions that suit the specific need of their customers, thus enhancing their overall attractiveness to prospective customers. Therefore, potential entrants may find it difficult to compete against established market players.

**Reputation and track record** - Due to the high standard the industry is subjected to, and the complexity of the services needed, parties within the industry tend to engage with reputable players and those they have experience dealing with. Besides that, contractors in the industry usually scrutinise the background of their counterparts like their financial standing, technological background and their past projects before going into a contract with them. These actions essentially prevent some weaker players with less than stellar record from winning a contract.

*(Source: IMRR)*

## 8.21 Reliance on and vulnerability to imports

The OFSE industry is fairly reliant on imported technologically advanced and sophisticated services and equipment. Local players tend to depend on their foreign counterparts to provide certain forms of technology or engineering advice, as well as sourcing equipment and parts from them. This happens as the equipment and expertise used in the O&G industry is sophisticated. Therefore, local OFSE players have to import certain equipment, parts and systems that are not commonly found in Malaysia.

In order to mitigate the risk of exposure from relying on imports of equipment and to obtain the necessary skillsets to operate and manage the equipment, local OFSE players tend to form joint ventures with their foreign partners, or have foreign parties act as their strategic partners. They may also act as the exclusive distributors with foreign suppliers to mitigate the risk of import disruption.

*(Source: IMRR)*

## 9. MAJOR CUSTOMERS

The total number of customers of the OGPC Group for the FYE 2012, 2013 and 2014 are 141, 144 and 137 respectively. The major customers of the OGPC Group, who contributed more than 10% to the revenue of OGPC Group, for each of the last three (3) FYEs from FYE 2012 to 2014 are as follows:

| FYE | Name of customers | Total sales RM'000 | Contribution to total turnover (%) | Length of relationship (Year(s)) | Country of origin | Main services rendered |
|---|---|---|---|---|---|---|
| 2012 | Ranhill Worley[(a)] | 24,453 | 21.3 | 16 | Malaysia | Supply of marine loading arm and heating systems and related services |
| | MMHE[(b)] | 16,201 | 14.1 | 16 | Malaysia | Supply of pumps and related services |
| | PETRONAS Group[(c)] | 13,299 | 11.6 | 18 | Malaysia[(c)] | Supply of all types of products of the OGPC Group |
| | ExxonMobil[(d)] | 12,383 | 10.8 | 16 | Malaysia | Supply of pumps and valves and related services |
| 2013 | MMHE | 27,569 | 20.1 | 16 | Malaysia | Supply of pumps and valves and related services |
| | PETRONAS Group | 18,819 | 13.7 | 18 | Malaysia | Supply of all types of products of the OGPC Group |
| | ExxonMobil | 17,906 | 13.1 | 16 | Malaysia | Supply of pumps and valves related services |
| 2014 | MMHE | 18,545 | 20.8 | 16 | Malaysia | Supply of valves and pumps and related services |
| | PETRONAS Group | 23,111 | 25.9 | 18 | Malaysia[(c)] | Supply of all types of products of the OGPC Group |
| | ExxonMobil | 9,825 | 11.0 | 16 | Malaysia | Supply of pumps and valves and related services |

*Notes:-*
*(a) Ranhill Worley : Perunding Ranhill Worley Sdn Bhd.*
*(b) MMHE : Malaysian Marine and Heavy Engineering Sdn Bhd.*
*(c) PETRONAS Group: PETRONAS and its subsidiaries, including small amount to its overseas subsidiaries.*
*(d) ExxonMobil : ExxonMobil Production and Exploration Malaysia Inc.*

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For the FYE 2012, there were four (4) customers, including PETRONAS Group that individually contributed to more than 10% of the total revenue of the OGPC Group. The other three (3) companies are Ranhill Worley, MMHE and ExxonMobil. These customers accounted for approximately 57.8% of the total revenue of the OGPC Group for the FYE 2012. MMHE, PETRONAS Group and ExxonMobil were the three (3) customers that individually contributed to more than 10% of the total revenue of the OGPC Group in the FYE 2013. The sales to them amounted to RM64.3 million or 46.9% of the total revenue of the OGPC Group. In the FYE 2014, MMHE, PETRONAS Group and ExxonMobil are the three (3) customers that contributed to more than 10% individually to the total revenue of the OGPC Group. The sales to these three (3) customers amounted to RM51.5 million or 57.7% of total revenue of the OGPC Group.

Ranhill Worley ceased to be a major customer of the OGPC Group since 2013 as Ranhill Worley has ceased to undertake engineering, procurement, construction and commission work. Subsequent to 2013, Ranhill Worley only focuses on providing engineering services and does not procure equipment directly from suppliers.

The OGPC Group has enjoyed long and stable business relationships with these customers for over sixteen (16) years. The long standing business relationships serve as an endorsement for the customer satisfaction on the products and services of the OGPC Group. It also shows that the OGPC Group has a stable customer base to sustain and grow its business in the future. As seen above, the OGPC Group is not heavily dependent on any single customer as most of its customers, other than the those stated above, contributed to less than 10% of its total revenue for the past three (3) financial years. As in product mix explained earlier, the key customers of the OGPC Group in any particular financial years may change depending on the level of activities and projects undertaken by the customers in the respective industries.

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## 10. MAJOR SUPPLIERS

The total number of suppliers of the OGPC Group for the FYE 2012, 2013 and 2014 are 103, 126 and 110 respectively. The OGPC Group's suppliers who individually accounted for more than 10% of the OGPC Group's total purchases for each of the last three (3) FYEs from FYE 2012 to FYE 2014 are as follows:

| FYE | Name of suppliers | Total purchases (RM '000) | Contribution to total purchases (%) | Length of relationship (Year(s)) | Country of origin | Service rendered |
|---|---|---|---|---|---|---|
| **2012** | FMC Group[(a)] | 13,076 | 15.2 | 15 | France, Singapore, USA | Supply of loading arms and valves |
| | SPX Group[(b)] | 28,805 | 33.5 | 16 | UK, Singapore, Canada, USA | Supply of pumps |
| **2013** | SPX Group | 35,298 | 35.1 | 16 | UK, Singapore, Canada, USA | Supply of pumps |
| **2014** | SPX Group | 17,743 | 30.9 | 16 | UK, Singapore, Canada, USA | Supply of pumps |
| | FMC Group | 6,494 | 11.3 | 15 | France, Singapore, USA | Supply of loading arms and valves |

<u>Notes:-</u>
*(a) FMC Group : FMC and its subsidiaries.*
*(b) SPX Group : SPX and its subsidiaries.*

For the FYE 2012 and FYE 2014, the top two (2) suppliers, SPX Group and FMC Group, accounted for 48.7% and 42.2% of the total purchases for those two (2) years. SPX Group, who accounted for 35.1% of the total purchases, is the only supplier that accounted for more than 10% of the total purchases for the FYE 2013. As explained earlier, the product mix which determine the key suppliers changes from year to year as it depends on the project and requirements of the customers and the activities in the O&G industry and other industries that the OGPC Group is involved in.

The OGPC Group has exclusive arrangement with SPX Group and FMC Group for the supply of pumps and loading arms and valves. Hence, the OGPC Group can only source similar products from other suppliers or principals on the expiry or termination of the exclusive agreements. In rare circumstances where these suppliers declined to quote, the OGPC Group would inform/obtain consent from them, if required, before dealing with other suppliers. The OGPC Group enjoys a long-term and cordial business relationship with its suppliers as evidenced by the fact that the above suppliers have been with the OGPC Group for more than fifteen (15) years.

## 11. INTERRUPTION IN BUSINESS THAT HAS SIGNIFICANT IMPACT ON OPERATIONS FOR PAST TWELVE (12) MONTHS

As at the LPD, there are no interruption in the OGPC Group's business, which has a significant effect on its operations during the past twelve (12) months.

## 12. SENIOR MANAGEMENT

### 12.1 Particulars and shareholdings

None of the senior management personnel of the OGPC Group has any equity interest in the company as at the LPD.

### 12.2 Profiles of senior management personnel

**(a) Mohd Rajab Bin Abdullah**

Mohd Rajab Bin Abdullah, aged 34, is the Products Manager of the OGPC Group. He graduated with a Bachelor's Degree in Engineering (Electrical and Electronics) from University of Technology Malaysia in 2003. After his graduation, he started his career as Industrial/Product Engineer with Vacuumschmelze (M) Sdn Bhd in Pahang. In 2005, he moved to Selangor and joined Sime Darby Offshore Engineering Sdn Bhd ("**SDOESB**") as Project/Service Engineer. He left SDOESB to join the Malaysian office of Krohne Oil & Gas BV as Systems/Commissioning Engineer in 2008 and was there until 2009. Prior to joining OGPC as Senior Sales Engineer in November 2010, he was also attached to TriSystems Flow Products Sdn Bhd as Senior Metering Engineer. He was promoted to his current position in July 2012. He is responsible for Jiskoot, Aspentech and Pentair product sales and after-sales, developing and maintaining business and customers contact base information and promoting good image of company.

**(b) Shamir Mohammad**

Shamir Mohammad, aged 29, is the Project Engineer of the OGPC Group. He graduated with a Bachelor's Degree in Engineering (Mechatronic) from Universiti Malaysia Perlis, Malaysia in 2010. He worked as Project Engineer in Unit Concept Sdn Bhd after his graduation until he joined OGPC in 2012 as Project Engineer. He is mainly responsible for project management and overall site supervision and execution including direct interface with clients and suppliers.

**(c) Meor Azizi Bin Meor Baharom**

Meor Azizi Bin Meor Baharom, aged 38, is the Branch Manager of the Kemaman Branch. He graduated from Institut Kemahiran Mara with an Advance Certificate mechanical Engineering in 1997. Prior to joining OGPC in 2012, he had worked in O&G Industry under Proeight Offshore Engineering Sdn Bhd and SAAG Corporation Sdn Bhd for approximately 5 years. He also has experience in various other industries such as plastic injection moulding and electronics industries. He is responsible for the overall operations of the branch, to explore new opportunities and manage existing business of the branch.

**(d) Francis Chin Fui Phin**

Francis Chin Fui Phin, aged 41, is the Branch Manager of Miri Branch. He graduated with a Bachelor's Degree in Business Studies majoring in Finance from the University of Nebraska-Lincoln, USA in 1996.

He joined OGPC as Branch Manager of Miri Branch in 2006 and is responsible for the overall operations of the branch, to explore new opportunities and manage existing business of the branch. Prior to that he worked with various other companies since 1997 including Parker Hannifin Singapore Pte Ltd, Sony (M) Sdn Bhd and Flowtech Resources Sdn Bhd.

**(e) Ooi Huay Shien**

Ooi Huay Shien, aged 40, is the Senior Finance and Accounts Executive of the OGPC Group. She graduated with a Bachelor of Business Studies (Finance & Economics) from Massey University, New Zealand in 1997 and a Master in Business Studies from University of Malaya in 2002. Prior to joining OGPC in her current position in 2002, she has worked in the areas of accounting, administration and customer service. She is in charge of the overall finance, accounts and administrative functions of the OGPC Group.

**(f) Ahmad Saufi Bin Hazimi**

Ahmad Saufi Bin Hazimi, aged 31, is the Senior Project and Service Manager of the OGPC Group. He graduated with a Diploma in Mechanical Engineering from University Technology Malaysia in 2005. After graduating from University Technology Malaysia, he joined Continental Sime Tyre Sdn Bhd as Senior Supervisor before leaving for Rhomax (M) Sdn Bhd as Field Services Engineer. He joined OGPC as Service Engineer in 2008 and was promoted to his current position in 2015. He is in charge of Jiskoot, Pipeline Engineering and Pentair product after-sales service, developing and maintaining business and customers contact base information and promoting good image of company.

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## 13. COMPETITIVE STRENGTHS

The OGPC Group's competitive advantages are key in sustaining the business as well as providing future business expansion and growth.

The competitive advantages of the OGPC Group in the O&G industry include the following:

- Registration and licensing from relevant authorities;
- Market recognition and quality services;
- Access to technology and strategic alliances with key global manufacturers or principals;
- Specialised range of engineering suite of services;
- Close working relationship with customers;
- Integrated services provider; and
- Strong financial strength.

### 13.1 Registration and licensing from relevant authorities

OGPC is licensed/registered with PETRONAS, TNB, CIDB, FELDA and MOF after having met the stringent criteria of experiences, delivery capability and safety track record set out by the respective authorities/organisations above.

The registration with PETRONAS, TNB, CIDB and FELDA would require the registration with MOF as a pre-condition. OGPC being registered with these various authorities/organisations is deemed as an approved vendor to provide services in this sector, thus giving the OGPC Group an advantage.

With the range of licenses and registrations, the OGPC Group will be able to further expand its business from the current concentration in the O&G and petrochemical sectors to the power and other industrial sectors both for the private and public sectors.

### 13.2 Market recognition and quality services

Since its establishment, the OGPC Group has completed numerous projects for local O&G industry players. The projects include supplying of specialised O&G equipment to fulfil its customers' needs, as well as engineering and technical works associated with these equipment. The OGPC Group believes that continuous supply of quality products and services to cater the industry's needs is one of the key essential factors that has allowed it to excel in the industry.

Its track record in the industry is made possible through the continuous technical training provided to its experienced and skilled technical personnel. The OGPC Group provides them with the necessary technical know-how through in-house and on-the-job training. In addition, the technical workers are also sent for training at the suppliers'/principals' offices overseas for in-depth knowledge of various products and its applications as well as to have direct interaction with the suppliers'/principals' research and development's team.

### 13.3 Access to technology and strategic alliances with key global principals

The Directors of the OGPC Group have maintained close and long relationship with its principals. Over the years, OGPC has attained confidence of international principals like AspenTech, Pentair Group of companies, Zeeco, Applicot, James Walker, FMC Group, Cameron and Thermax Limited to represent their respectives organisations for the supply of their products in the region. Some of these principals have been with the OGPC Group for more than fifteen (15) years.

The vast range of specialised equipment offered by OGPC Group allows it to market and sell a wider range of products and enable it to cater to various requirements and solutions of its customers.

### 13.4 Value-add services

The OGPC Group's experience in the supply of products and equipment which generally comes with other ancillaries to suit specific engineering solutions provide the OGPC Group with a network of specialised engineering consultants and fabricators. This collaborative relationship allows the OGPC Group to also undertake certain assignments which requires high-end engineering input during the initial design and layout stage, which is the pre-sale services, as well as during installation and commissioning of the products and equipment. Such services provide the OGPC Group with an edge over its peers as it is able to supply not only products and equipment but installation and commissioning work. This enables the OGPC Group to provide value-add services to widen its customers' base.

### 13.5 Close working relationship with customers

The OGPC Group's more than fifteen (15) years' relationship with thirty (30) customers is a testimony of its established credibility and reliability. Approximately 33.3% of these customers have transactions with the OGPC Group every year since 2001 and 43.3% of these customers have transactions with the OGPC Group between ten (10) and thirteen (13) years out of the past fourteen (14) years starting from 2001.

In addition, the OGPC Group maintains constant and close customers' involvement in each stage of the projects undertaken by its customers, which has allowed the OGPC Group to forge a close working relationship with its customers. This enhanced understanding of its customers' needs arising from the constant customers' feedback has resulted in positive goodwill for the OGPC Group's reputation and is indicative of its capabilities to provide effective and cost-efficient specialised engineering services to its customers. This can be seen from the long and cordial business relationships with its customers.

Over the years, as set out in Section 1.2 and Section 1.3 of this Appendix I(A), the OGPC Group has received various certificates of appreciation and awards from its customers for the successful completion of projects which include Yoho YP Topsides by Consortium of Sime Darby Engineering Sdn Bhd, ExxonMobil and Saipem S.p.A, SUPG-B and SUJT-C Development Project Phase 2 by PETRONAS Carigali, AKOGEP Phase 2 Project by ExxonMobil, Saibos Akogep Snc and Total S.A., and Yarway Desuperheater Control Valve overhaul by PETRONAS Penapisan (Terengganu) Sdn Bhd and Aromatics Malaysia Sdn Bhd.

### 13.6 Competent Packager

The OGPC Group's success also comes from its ability to act as a Packager which entails the collaboration of its in-house and suppliers' product engineering team as well as other external consultants/fabricators during the initial design stage to meet its customers' requirements prior to installation and commissioning. In addition, the OGPC Group also provides continuous after-sales services and the supply of parts and components for the installed equipment.

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With more than 15 years of experiences in the O&G industry, this has provided the OGPC Group the required knowledge to provide its customers with various solutions ranging from products supply to engineering services as well as after-sales services, giving customers what they require under one roof. The OGPC Group has the ability to source, import and/or procure the products based on the requirements given by its customers, as well as sourcing third (3rd)-party contractors for engineering services. Apart from these, OGPC has set up branches in the East Coast of Peninsular Malaysia and in East Malaysia to be closer to its customers.

By offering such services, the OGPC Group is able to put itself in a favourable position to assist customers in terms of time savings, effort and cost.

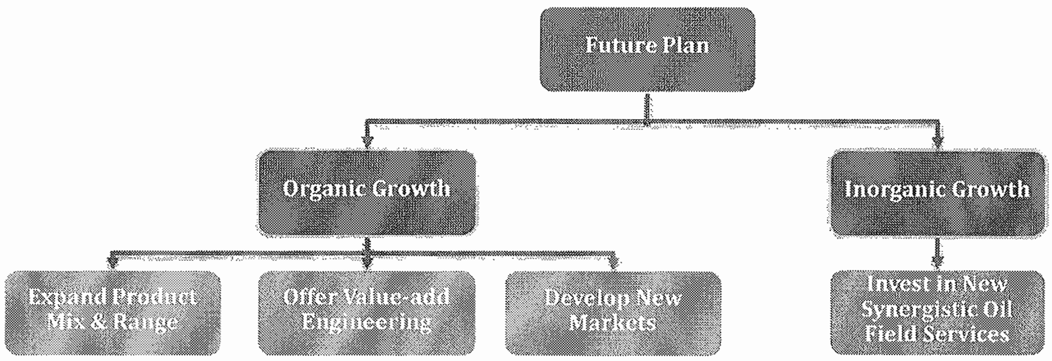
**13.7 Strong financial strength**

The OGPC Group has been profitable and operating in positive net cash position over the last three (3) financial years, save for the FYE 2012. The negative net operating cash flows of OGPC's audited accounts FYE 2012 at approximately RM6.97 million was mainly due to the timing mismatch of receipts from a customer in FYE 2011 and payments to suppliers made in FYE 2012, both transactions of which are related to the Lekas Project and the reversal on an one-off downpayment received from a customer in FYE 2011 which was subsequently recognised as sales in FYE 2012.

The strong financial strength is reflected by the no-gearing position except for trading facilities from the financial institutions. This reduces its financing cost and give it the competitive edge and flexibility to embark on any job/projects.

## 14. FUTURE PLANS, STRATEGIES AND PROSPECTS

The future plans of the OGPC Group will focus on four (4) key areas aiming to grow the OGPC Group organically as well as inorganically. The four key areas are depicted in the diagram below:




<u>Organic Growth</u>

**(a) Expand product mix and range**

The OGPC Group has since its inception continued to expand its product mix to better serve the requirements of its customers. This is evidenced by the fact that the OGPC Group started with only three principals namely Clarcor, Liquip and FMC Fluid Control in 1996, dealing in loading arms, pumping and metering solutions, engineered valves and filters. Today, the OGPC Group is working with over twenty (20) principals for the supply of specialised engineering equipment and services with wide-ranging product mix covering amongst others, pumps, valves, compressors, loading arms, heating systems, passive fire protectors, filters, pipeline pigging, flares system and automatic sampling systems.

In addition to its extended list of specialised equipment, the OGPC Group has also expanded the services aspect of its business to include installation and commissioning services, technical servicing and product improvements services as well as underwater engineering, and maintenance services which include the ROV services, as well as the after-sales service such as inspection, servicing, repair and maintenance.

Going forward, the OGPC Group plans to further expand the mix and range of the products and services it carries to better serve the industry and lend support to its plans to enhance its offerings on value-add engineering services and develop new markets.

**(b) Offer value-add services**

Over the years, the OGPC Group has not only supplied and serviced the equipment to its customers but is also involved in providing the specific technical and engineering solutions to them especially in situations where innovative and customised equipment and technical solutions are needed.

As a case in point, the OGPC Group had in 2002 successfully collaborated with oil major operating an O&G field in Sarawak to jointly with its supplier/principal develop a remote sensing flare system at a flare platform that is located far from the main platform. The system is a major milestone for both the oil major and the OGPC Group as the solution helped to achieve zero gas venting/emission from the field's operations. In another case, the OGPC Group had also successfully collaborated with its principals and other consultants/fabricators in developing a compact manifold system that can be installed and operated in a small work area for O&G production operations since 1999 and has since been supplying this to its customers. As part of DNeX business diversification, DNeX is exploring the opportunity to scale up the OGPC Group's business model of packaging such as the remote sensing flares system. Currently, DNeX is in the process of evaluating the technical capabilities of various service providers (i.e. fabricators, design consultant) and principals in scaling up the OGPC Group's business model.

Apart from the above, the after-sales service provided by the OGPC Group include pump servicing, repair and alignment, marine loading arm servicing, compressor servicing, flare system servicing as well as equipment replacement where major retrofitting, repair and overhaul are done at the principals' authorised workshop or third party workshop.

In line with the OGPC Group's plans to deepen its value-add engineering offerings to its customers and potential customers, the OGPC Group plans to establish a new workshop and fabrication facilities at the newly acquired factory cum office to provide in-house maintenance, repair and overhaul services for pumps, compressors, valves, loading arms, flares system and cooling systems and other equipment. The new workshop will be equipped with the relevant machinery and equipment that will be able to allow the OGPC Group to provide value-add engineering services in-house.

The in-house workshop will be staffed with qualified technical personnel to provide high quality services to OGPC's customers to reduce reliance on third party contractors and enhance the OGPC Group's engineering capabilities to offer and/or to address the specific technical/engineering requirements of the customers.

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**(c) Develop new markets**

The OGPC Group primarily services the local market although over the last three (3) years. Notwithstanding this, the OGPC Group has also registered aggregate sales of approximately RM9 million from customers in the South East Asia region and Turkmenistan.

As part of the OGPC Group's forward strategies, the OGPC Group plans to expand and strengthen its presence in the South East Asian and Middle East markets where opportunities in O&G industry exist by amongst others participating in the tenders bid and became registered vendors of major O&G players in these areas. From current low base, the OGPC Group aims to gradually increase the revenue generated from these new markets to account for a sizeable proportion of the Group's revenue by FYE 2017. In addition, the OGPC Group has initiated to expand overseas. No material contribution is expected from these initiatives for the FYE 2015.

Apart from the abovementioned geographical expansion strategy, the OGPC Group also plans to expand its operations in Malaysia by entering into the non-traditional sectors including power and general industries. The OGPC Group will deepen its coverage in these sectors by establishing dedicated teams with the relevant knowledge and provide the right products in terms of functionality, specifications and pricing in serving these sectors.

**Inorganic growth**

Whilst a key thrust of the OGPC Group's future plans is to grow its business organically, the OGPC Group will stay agile looking out for opportunities to broaden the scope and scale of its operations inorganically. Selective investment either through acquisition or joint venture will be made principally targeting synergistic O&G services that are skills and knowledge based and preferably with asset-light operating model. In the medium to long term, the OGPC Group strives to become an integrated O&G equipment and services provider serving its customers in Malaysia and in the region.

## 15. PROSPECTS OF THE OGPC GROUP

The future prospects of the OGPC Group are set out in Section 8.4 of this Circular.

## 16. INDUSTRY OVERVIEW

The overview of the industry in which the OGPC Group operates is set out in the Executive Summary of the IMRR on strategic analysis of the oil field services and equipment industry in Malaysia prepared by Protégé in Appendix II of this Circular.

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## 1. OVERVIEW OF THE OGPC GROUP'S OPERATIONS

The following management's discussion and analysis for the past three (3) FYEs 2012 to 2014 and the past two (2) FPEs 2014 and 2015 are based on the OGPC Group.

This discussion and analysis for the past three (3) FYEs 2012 to 2014 should be read in conjunction with the Accountants' Report on the OGPC Group as set out in Appendix III of this Circular. As stated in the Accountants' Report on the OGPC Group, for the three (3) FYEs 2012 to 2014, historical information is reviewed under the historical cost convention and modified to include other bases of valuation as disclosed in other sections of the Accountants' Report on the OGPC Group under significant accounting policies, and in compliance with MFRSs and IFRSs. The transition to MFRSs is accounted for in accordance with MFRS 1 First-time Adoption of MFRSs, with 1 January 2013 as the date of transition.

This discussion and analysis contains data derived from the audited financial statements and unaudited financial statements of the OGPC Group as well as forward-looking statements that involve risks and uncertainties. Accordingly, the results may differ significantly from those projected in the forward-looking statements include, but not limited to, those discussed below and everywhere else in this Circular, particularly the risk factors as set out in Section 9 of this Circular.

The financial information of the OGPC Group for the past three (3) financial years from the FYE 2012 to FYE 2014 extracted from the Accountants' Report on the OGPC Group (attached in Appendix III of this Circular), the financial information of the OGPC Group for the FPE 2014 extracted from the audited accounts of OGPC Group and the financial information of the OGPC Group for the FPE 2015 extracted from the unaudited financial statements of the OGPC Group are as follows:-

| | Audited | | | Audited | Unaudited |
|---|---|---|---|---|---|
| | FYE 2012<br>RM'000 | FYE 2013<br>RM'000 | FYE 2014<br>RM'000 | FPE 2014<br>RM'000 | FPE 2015<br>RM'000 |
| Revenue | 114,565 | 137,066 | 89,306 | 43,015 | 49,314 |
| Cost of sales | (85,921) | (100,597) | (57,408) | (26,739) | (34,106) |
| Gross profit | 28,644 | 36,469 | 31,898 | 16,276 | 15,208 |
| Other income | 2,294 | 3,816 | 2,472 | 459 | 3,379 |
| | **30,938** | **40,285** | **34,370** | **16,735** | **18,587** |
| Administrative expenses | (6,547) | (6,879) | (7,720) | **(3,416)** | **(3,665)** |
| Other expenses | (1,370) | (891) | (685) | (1,953) | (289) |
| **PBT** | **23,021** | **32,515** | **25,965** | **11,366** | **14,633** |
| Depreciation | 405 | 548 | 547 | 273 | 289 |
| Interest income | (65) | (65) | (244) | (26) | (1) |
| **Earnings before depreciation, interest and taxation** | 23,361 | 32,998 | 26,268 | 11,613 | 14,921 |
| Depreciation | (405) | (548) | (547) | (273) | (289) |
| Interest income | 65 | 65 | 244 | 26 | 1 |
| **PBT** | **23,021** | **32,515** | **25,965** | **11,366** | **14,633** |
| Income tax expense | (6,296) | (7,236) | (7,075) | (2,511) | (3,085) |
| **PAT** | 16,725 | 25,279 | 18,890 | 8,855 | 11,548 |
| Other comprehensive income | - | - | - | - | - |
| **Total comprehensive income** | **16,725** | **25,279** | **18,890** | **8,855** | **11,548** |
| Total comprehensive income attributable to:- | | | | | |
| Owner of the parent | 16,087 | 24,745 | 18,804 | 8,837 | 11,218 |
| Non-controlling interests | 638 | 534 | 86 | 18 | 330 |
| **Total comprehensive income** | **16,725** | **25,279** | **18,890** | **8,855** | **11,548** |

| | | | | | |
|---|---|---|---|---|---|
| Number of OGPC Shares in issue ('000) | 500 | 500 | 500 | 500 | 500 |
| Total equity/NA[(a)] | 70,833 | 80,578 | 73,382 | 83,415 | 84,600 |
| NA per Share (RM)[(a)] | 141.67 | 161.16 | 146.76 | 166.83 | 169.20 |
| Total borrowings | - | - | - | - | - |
| **Other selected financial data:** | | | | | |
| Gross profit margin (%)[(b)] | 25.00 | 26.61 | 35.72 | 37.84 | 30.84 |
| PBT margin (%)[(c)] | 20.09 | 23.72 | 29.07 | 26.42 | 29.67 |
| PAT margin (%)[(d)] | 14.60 | 18.44 | 21.15 | 20.59 | 23.42 |
| Gross EPS (RM)[(e)] | 46.04 | 65.03 | 51.93 | 22.73 | 29.27 |
| Net EPS (RM)[(f)] | 33.45 | 50.56 | 37.78 | 17.71 | 23.10 |
| Current ratio (times)[(g)] | 3.65 | 3.37 | 4.22 | 5.91 | 5.13 |
| Gearing ratio (times)[(h)] | - | - | - | - | - |

*Notes:-*

*(a) Excluding non-controlling interests.*
*(b) Calculated as gross profit over revenue.*
*(c) Calculated as PBT over revenue.*
*(d) Calculated as PAT over revenue.*
*(e) Calculated as PBT over the number of OGPC Shares in issue.*
*(f) Calculated as PAT over the number of OGPC Shares in issue.*
*(g) Calculated as current assets over current liabilities.*
*(h) Calculated as total borrowings over total equity/NA.*

## 1.1 Overview

OGPC was incorporated in Malaysia on 14 May 1994 as a private limited company under the Act. The principal activities of the OGPC and OGPCOG are the sale of O&G related equipment, provision of engineering and technical support services for the O&G industry.

Over the past nineteen (19) years, the OGPC Group has established itself as one of the leading supplier and service provider for specialised equipment and parts as well as technical support services including offshore services principally for the O&G industry. Other markets for the OGPC Group's products and services include the petrochemical, power and general industries. To complement the sale of equipment and engineering services, the OGPC Group has also started to offer a wide range of specialist underwater services, which includes underwater inspection, repair, maintenance and engineering works.

Further information on the business of the OGPC Group is set out in Appendix I(A) of this Circular.

## 1.2 Results of operations

### 1.2.1 Revenue

The core revenue streams of the OGPC Group are as follows:

(a) supply, installation and commissioning of equipment, ancillary parts and replacement parts which is inclusive of the pre-sales services ("**Sale of Equipment**"); and

(b) comprehensive after-sales services which include inspection, servicing, maintenance and repair work ("**Engineering Services**").

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For the Sale of Equipment segment, the OGPC Group holds exclusive arrangement with international brand names which include Altair, Applicot, SPX, Exterran, FMC, Cameroon/Jiskoot, Peerless Grundfos, Pentair Valve and Pentair Thermal. The OGPC Group is the appointed sales representative in Malaysia for a wide range of equipment including but not limited to pumps, valves, compressors, loading arms, heating systems, filters, pipeline pigging, flare system and sampling systems. It is also the authorised representative for AspenTech software.

For Engineering Services segment, the OGPC Group has entered into long term service contracts (in respect of pricing for spare parts) ranging from two (2) years to five (5) years with certain key customers, including but not limited to PETRONAS Carigali, Sarawak Shell Berhad ("**Sarawak Shell**") and ExxonMobil.

In line with the stringent regulations governing the O&G industry, the OGPC Group has to ensure that the products and equipment supplied meet the specifications of the customers and that most of these products and equipment are manufactured by its principals. The OGPC Group's staff, of which 53% (with 17 qualified engineers, excluding the Directors) were involved in engineering and technical sales related activities, have over the years garner valuable experience in the application and installation of the products and equipment and able to provide technical input and recommendations on the use of specific products or equipment to meet customers' requirements.

Further information on the business processes are as detailed in Section 8.6 of Appendix I(A) of this Circular. Please refer to Section 9 of Appendix I(A) for further information on the major customers of the OGPC Group.

The main factors affecting the revenue are as detailed in this Section.

On average, financial arrangements with major O&G customers are based on open credit terms ranging from thirty (30) days to sixty (60) days. However, payment terms with other customers are assessed depending on the customer's profile and subject to Directors of the OGPC Group's approval.

**(a) Revenue analysis**

The revenue analysis by companies for the three (3) audited FYEs 2012, 2013, 2014 and the two (2) FPEs 2014 and 2015 is as follows:-

| | Audited | | | Audited | Unaudited |
|---|---|---|---|---|---|
| | FYE 2012 RM'000 | FYE 2013 RM'000 | FYE 2014 RM'000 | FPE 2014 RM'000 | FPE 2015 RM'000 |
| | | | | | |
| OGPC | | | | | |
| - Sale of Equipment | 98,067 | 110,683 | 77,182 | 38,221 | 40,249 |
| - Engineering Services | 9,270 | 16,919 | 10,399 | 3,947 | 5,533 |
| | 107,337 | 127,602 | 87,581 | 42,168 | 45,782 |
| | | | | | |
| OGPCOG | | | | | |
| - Sale of Equipment | 7,121 | 9,430 | 1,379 | 806 | 3,427 |
| - Engineering Services | 107 | 34 | 346 | 41 | 105 |
| | 7,228 | 9,464 | 1,725 | 847 | 3,532 |
| | | | | | |
| **OGPC Group** | **114,565** | **137,066** | **89,306** | **43,015** | **49,314** |

The revenue analysis by product mix is as follows:-

| Segments | Audited | | | | | | Audited | | Unaudited | |
|---|---|---|---|---|---|---|---|---|---|---|
| | FYE 2012 | | FYE 2013 | | FYE 2014 | | FPE 2014 | | FPE 2015 | |
| | RM'000 | % | RM'000 | % | RM'000 | % | RM'000 | % | RM'000 | % |
| **Sale of Equipment** | | | | | | | | | | |
| - Pumps | 37,912 | 33.1 | 46,470 | 33.9 | 23,952 | 26.8 | 9,311 | 21.7 | 5,437 | 11.0 |
| - Valves | 6,587 | 5.7 | 12,547 | 9.2 | 13,504 | 15.1 | 7,578 | 17.6 | 6,848 | 13.9 |
| - Heating systems | 19,545 | 17.1 | 9,780 | 7.1 | 6,814 | 7.6 | 3,455 | 8.0 | 8,621 | 17.5 |
| - Sampling systems | 4,049 | 3.5 | 8,254 | 6.0 | 6,589 | 7.4 | 3,070 | 7.1 | 3,344 | 6.8 |
| - Loading arms | 13,704 | 12.0 | 5,791 | 4.2 | 5,401 | 6.0 | 1,959 | 4.6 | 1,103 | 2.2 |
| - Ancillary equipment, parts and components | 1,873 | 1.7 | 5,694 | 4.1 | 4,393 | 5.0 | 3,015 | 7.0 | 3,199 | 6.5 |
| - Flare system | 775 | 0.7 | 3,199 | 2.3 | 3,727 | 4.2 | 1,309 | 3.0 | 3,124 | 6.3 |
| - Filters | 1,955 | 1.7 | 3,836 | 2.8 | 3,387 | 3.8 | 2,213 | 5.1 | 2,402 | 4.9 |
| - Pipeline pigging | 3,297 | 2.9 | 2,968 | 2.1 | 3,233 | 3.6 | 2,891 | 6.7 | 2,005 | 4.1 |
| - Software | 2,047 | 1.8 | 1,525 | 1.1 | 2,440 | 2.7 | 2,440 | 5.7 | 2,586 | 5.2 |
| - Compressors | 9,210 | 8.0 | 8,042 | 5.9 | 1,989 | 2.2 | 724 | 1.7 | 3,543 | 7.2 |
| - Fire fighting pumps | 308 | 0.3 | 624 | 0.5 | 1,860 | 2.1 | 294 | 0.7 | 965 | 2.0 |
| - Agitators | 1,941 | 1.7 | 2,642 | 1.9 | 983 | 1.1 | 479 | 1.1 | 499 | 1.0 |
| - Mechanical seal | 151 | 0.1 | 1,175 | 0.9 | 289 | 0.3 | 289 | 0.7 | - | - |
| - Passive fire protectors | - | - | 6,300 | 4.6 | - | - | - | - | - | - |
| - Scaffoldings | - | | 1,175 | 0.9 | - | - | - | - | - | - |
| - Flange | 1,941 | 1.6 | 91 | 0.1 | - | - | - | - | - | - |
| | 105,295 | 91.9 | 120,113 | 87.6 | 78,561 | 87.9 | 39,027 | 90.7 | 43,676 | 88.6 |
| **Engineering Services** | 9,270 | 8.1 | 16,953 | 12.4 | 10,745 | 12.1 | 3,988 | 9.3 | 5,638 | 11.4 |
| TOTAL | **114,565** | **100.0** | **137,066** | **100.0** | **89,306** | **100.0** | **43,015** | **100.0** | **49,314** | **100.0** |

Revenue from Sale of Equipment was the primary contributor for the OGPC Group ranging from 87.9% to 91.9% of the total revenue whilst the remaining revenue came from Engineering Services.

Revenue by product mix is determined by the demands from the projects undertaken by the OGPC Group's customers, which in turn determines the type of products required. The product mix varies every year with pumps remaining as the most popular equipment with the highest percentage of total revenue for the FYE 2012, FYE 2013 and FYE 2014 at 33.1%, 33.9% and 26.8% respectively.

For the FYE 2014, the O&G industry contributed approximately 93% of revenue followed by petrochemicals at 4% of revenue and general industry at 3% of revenue with power sector contributing less than 0.1% for the FYE 2014.

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**FYE 2012**

For the FYE 2012, Sale of Equipment was the major contributor at 91.9% of total revenue. The three (3) main contributors were pumps, heating systems and loading arms, which accounted for 33.1%, 17.1% and 12.0% of the total revenue respectively. Pumps, which contributed RM37.9 million (a slight increase from RM36.9 million recorded in the FYE 2011) were mainly sold to ExxonMobil, MMHE and Kebabangan Petroleum Operating Company Sdn Bhd ("**KPOC**").

Heating systems' contribution increased from approximately RM4.0 million in the FYE 2011 to RM19.5 million due to sale to Perunding Ranhill Worley-Muhibbah Consortium ("**Ranhill**") and Kemaman Bitumen Company Sdn Bhd ("**Kemaman Bitumen**") for use in its plant in Bitumen. Contribution from loading arms of RM13.7 million, reduced from RM46.6 million recorded in the FYE 2011, was mainly from sales to Ranhill and Cericorn (M) Sdn Bhd ("**Cericorn**"). The reduction in sale of loading arms was due to lower sale to Ranhill, as bulk of the orders had been supplied and invoiced in the FYE 2011.

**FYE 2013**

For the FYE 2013, contribution from Sale of Equipment reduced to 87.6%, with the increase in contribution from Engineering Services to 12.4%. Under Sale of Equipment, pumps continued to be the main contributor at approximately RM46.5 million or 33.9% of total revenue, increased from RM37.9 million recorded in prior year. Higher sales to ExxonMobil, MMHE, Petrofac (Malaysia – PM304) Ltd, PETRONAS Carigali and Sarawak Shell contributed to the increase in sale of pumps. Valves also recorded higher sales from RM6.6 million to RM12.5 million or 9.2% of total revenue, which was mainly contributed by higher sales to MMHE, ExxonMobil and Optimal Chemicals (Malaysia) Sdn Bhd. Sale of loading arms dropped further from RM13.7 milion to RM5.8 million (4.2% of total revenue), due to completion of delivery of most of the orders to Ranhill and Cericorn. The lower sales of heating systems for the FYE 2013 from RM19.5 million to RM9.8 million or 7.1% of total revenue was also due to completion of bulk of the delivery of orders to Ranhill in the previous financial year.

**FYE 2014**

The total revenue for the FYE 2014 was RM89.3 million. This was lower than that for the FYE 2013 of approximately RM137.1 million by approximately RM47.8 million or 34.9%. The lower revenue for the FYE 2014 was mainly due to deferment in the commencement of several projects which included the refinery and petrochemicals integrated development ("**RAPID**") project in Johor and the EOR projects including the Bokor fields.

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For the FYE 2014, the percentage contributions from Sale of Equipment and Engineering Services was consistent at 87.9% and 12.1% respectively, with that recorded for the FYE 2013. Under Sale of Equipment, the main contributor, pumps, recorded a sale of approximately RM24.0 million or 26.8% of total revenue. The percentage of contribution reduced from 33.9% recorded in the FYE 2013. This was mainly due to lower sale to ExxonMobil, MMHE, Petrofac (Malaysia – PM304) Ltd and Sarawak Shell which was slightly offset by increase in sale to PETRONAS Carigali and Carigali-Hess Operating Company Sdn Bhd. Sale of valves increased slightly from RM12.5 million in the FYE 2013 to RM13.5 million with higher contribution of 15.1%, compared to 9.2% in the FYE 2013, to total revenue. Higher sales of valves for MMHE, ExxonMobil, PETRONAS Penapisan (Melaka) Sdn Bhd ("**PETRONAS Penapisan**"), Shapadu Energy and Engineering Sdn Bhd ("**Shapadu**") and Sabah Shell Petroleum Co Ltd were the main reasons for the improved performance of valves.

Contribution from loading arms reduced slightly from RM5.8 million to RM5.4 million but percentage contribution had improved from 4.2% to 6.0%. The lower sales value was due to completion of sales to Ranhill in the FYE 2013 and cushioned by sales to MMHE, PETRONAS Carigali and PETRONAS Penapisan. Sales of heating systems also reduced from RM9.8 million to RM6.8 million despite improved in percentage contribution from 7.1% to 7.6%. The lower sales were mainly resulted from reduction in sales to Shapadu, Kemaman Bitumen, Ranhill and Shell Chemical Seraya Pte Ltd which was slightly offset with higher sales to MMHE, KNM Process Systems Sdn Bhd and THHE Fabricators Sdn Bhd.

Among the projects undertaken by Ranhill and ExxonMobil during the years under review were Lekas Regasification project and Tapis EOR project respectively. On the other hand, MMHE has been involved in Gumusut-Kakap project, Tapis-R top sides project and Damar natural gas field offshore project.

**FPE 2015**

The total revenue for FPE 2015 was approximately RM49.3 million. This was higher than that recorded for the FPE 2014 of RM43 million by 14.7%.

Under the Sale of Equipment, the main contributor for FPE 2015 was heating systems which was 17.5% of total revenue compared to 8% of total revenue for FPE 2014. This was mainly due to higher sales to KNM Process Systems Sdn Bhd. The contributions from pumps and valves reduced from 21.6% and 17.6% respectively recorded in FPE 2014 to 11.0% and 13.9% respectively in FPE 2015. The lower sales of pumps was due to lower sales to ExxonMobil, MMHE and KPOC while the lower sales of valves resulted from lower sales to ExxonMobil, MMHE and PETRONAS Penapisan which was slightly cushioned by higher sales to Sabah Shell Petroleum Co Ltd and KPOC.

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Among the projects undertaken by Ranhill and ExxonMobil during the years under review were Lekas Regasification project and Tapis EOR project respectively. On the other hand, MMHE had been involved in Gumusut-Kakap project, Tapis-R top sides project and Damar natural gas field offshore project.

Over 90% of the total revenue for the FYE 2012 and FPE 2014 related to the Sale of Equipment. However, it reduced to below 90%, at 87.6% in the FYE 2013, 87.9% in the FYE 2014 and 88.6% in the FPE 2015, whereby the contribution from Engineering Services contributed to 12.4%, 12.1% and 11.4% of the total revenue in the FYE 2013, FYE 2014 and FPE 2015 respectively. The Sale of Equipment will bring further business in terms of sales of spare parts and also Engineering Services, both of which generally provide higher margin.

**(b) Analysis of gross profit and PBT**

| | Audited | | | Audited | Unaudited |
|---|---|---|---|---|---|
| | FYE 2012 | FYE 2013 | FYE 2014 | FPE 2014 | FPE 2015 |
| Gross profit (RM'000) | 28,644 | 36,469 | 31,898 | 16,276 | 18,587 |
| PBT (RM'000) | 23,021 | 32,515 | 25,965 | 11,366 | 14,633 |
| Gross profit margin | 25.0% | 26.6% | 35.7% | 37.8% | 30.8% |
| PBT margin | 20.1% | 23.7% | 29.1% | 26.4% | 29.7% |

The OGPC Group practices cost plus approach to its selling prices where costs are typically cost of products, sub-contracting works and outsourcing manpower, and other shipping and handling cost.

Gross profit margin ("**GP margin**") varied depending on the type of sales made i.e. Sale of Equipment or Engineering Services that were offered to its customers. The overall improvement in GP margins and PBT margins were in line with the increase in Engineering Services revenue, where generally higher profit margin was reported.

__FYE 2012__

The GP margin for the FYE 2012 increased from 20.3% to 25.0% with the reduction of sale of loading arms, which were sold at a lower margin. In addition, higher contribution from Engineering Services, which generated higher margin, from approximately RM3.5 million (2.9% of total revenue) in the FYE 2011 to approximately RM9.3 million (8.1% of total revenue) in the FYE 2012 helped in improving the GP margin.

__FYE 2013__

During the FYE 2013, contribution from Engineering Services further increased from approximately RM9.3 million (8.1% of total revenue) to approximately RM17 million (12.4% of total revenue). This resulted in an improved GP margin from 25.0% in the FYE 2012 to 26.6% for the FYE 2013 and PBT margin increased to 23.7% in the FYE 2013 as compared to 20.1% in the FYE 2012.

**FYE 2014**

During the FYE 2014, GP margin increased from 26.6% to 35.7% whereas PBT margin increased from 23.7% to 29.1%. The higher margins were due mainly to the increase in sales of parts and MRO businesses from the recently completed projects which generates higher margin.

**FPE 2015**

GP margin of 30.8% for the FPE 2015 was lower as compared to 37.8% recorded in FPE 2014. This was due to exceptionally high margin recorded for FPE 2014. One of the reasons for the high margin was the recognition of nearly half of the total revenue of one of the order for Tapis-R project in FPE 2014, whereas most of the cost had already been captured in 2013. The PBT margin increased from 26.4% to 29.7% for the FPE 2015 due to foreign exchange gain of approximately RM3.3 million.

Included in the PBT for the years and periods under review were the foreign exchange gain/loss summarised in the schedule below:-

| | Audited | | | Audited | Unaudited |
|---|---|---|---|---|---|
| | FYE 2012 RM'000 | FYE 2013 RM'000 | FYE 2014 RM'000 | FPE 2014 RM'000 | FPE 2015 RM'000 |
| Realised gain/(loss) | 2 | (8) | (105) | 48 | 30 |
| Unrealised (loss)/gain | (976) | 3,419 | 1,113 | (1,329) | 3,294 |
| Total foreign exchange (loss)/gain | (974) | 3,411 | 1,008 | (1,281) | 3,324 |

The OGPC Group received approval from BNM for it to receive foreign currency from all of its major customers. With the BNM approvals, which were given based on individual customers, the OGPC Group is then able to bill its customers based on the currency of its purchases, providing natural hedge against foreign currency fluctuations. Hence, the low realised gain/loss on foreign exchange on PBT margin of the OGPC Group is not material.

### 1.2.2 Cost of sales

The cost of sales comprises mainly of the cost of products, services and the shipping and handling costs in connection with the shipping of the products to its customers located mainly in Malaysia. The OGPC Group usually delivers the products to its customers through forwarding agents or courier services. All these costs have been taken into consideration when quotations are provided to the customers. Products from overseas are primarily send by ship or by air in circumstances requiring urgent delivery and are usually shipped directly to the customers' premises.

As an authorised representative of specialised equipment, the costs of sales are largely dependent on the customers' specifications for the equipment and the demand for such equipment. As most of the suppliers of OGPC Group are foreign companies, billings in most cases are denominated in foreign currency such as USD, Euro ("**EUR**"), GBP, Japanese Yen ("**Yen**") and Singapore Dollar

("**SGD**"). Please refer to Section 10 of Appendix I(A) of this Circular for further information on the OGPC Group's major suppliers.

On average, the credit terms extended by the suppliers range from thirty (30) days to sixty (60) days upon delivery.

### 1.2.3 Other income

The main items included in other income for the years and periods under review are as follows:

| | Audited | | | Audited | Unaudited |
|---|---|---|---|---|---|
| | FYE 2012 RM'000 | FYE 2013 RM'000 | FYE 2014 RM'000 | FPE 2014 RM'000 | FPE 2015 RM'000 |
| Unrealised gain on foreign currency | - | 3,419 | 1,143 | 350 | 3,294 |
| Bad debts recovered | 289 | 95 | 66 | - | 36 |
| Settlement sum received | 1,700 | - | - | - | - |

The unrealised gain on foreign currency recorded in the FYE 2013, FYE 2014, FPE 2014 and FPE 2015 are due to fluctuation in foreign exchange rates.

The bad debts recovered for the three (3) FYEs and FPE 2015 were from a project in Sudan.

The settlement sum received in the FYE 2012 was pursuant to a consent judgement entered in respect of a litigation case involving the disposal of the OGPC's previously owned subsidiaries in 2009, namely OGPC Industries Sdn Bhd and OGPC Resources Sdn Bhd, which were incorporated on 21 April 2003 and 21 June 2004 respectively to Flexi Components Sdn Bhd. The reason for the disposal of aforesaid subsidiaries was because the OGPC Group wanted to focus on its O&G business operation.

OGPC Industries Sdn Bhd was involved in the electronics industry since the date of incorporation until the date of disposal, mainly in the manufacturing and trading of speaker boxes and units, whereas OGPC Resources Sdn Bhd was involved in plastic injection moulding activities.

The buyer, Flexi Components Sdn Bhd, filed a suit against OGPC, its Directors and auditors for, inter alia, the losses suffered from purchase of those two previously owned subsidiaries. OGPC further denied and counter claim for the balance of the purchase consideration of RM2 million. In 2012, the consent judgement was entered and pursuant to which the buyer, Flexi Components Sdn Bhd, was ordered to pay RM1.7 million as settlement sum, which the buyer had duly paid in 2012.

### 1.2.4 Operating expenses

The OGPC Group operating expenses mainly consist of salary cost, depreciation, insurance, travelling, entertainment and office administrative charges. The OGPC Group's total operating expenses for the FYE 2012, FYE 2013, FYE 2014, FPE 2014 and FPE 2015 were RM7.92 million, RM7.77 million, RM8.41 million, RM5.37 million and RM3.95 million, respectively.

Salary cost which is the biggest operating expense for the OGPC Group comprises of salary and related cost to personnel of OGPC Group, including its Directors. Salary cost accounted for 49.2%, 68.1%, 67.0%, 44.9% and 66.4% of the OGPC Group's total operating expenses for the FYEs 2012, 2013, 2014, FPEs 2014 and 2015 respectively. As a percentage of the OGPC Group's revenue, it amounted to 3.4%, 3.9%, 6.3%, 5.6% and 5.3% of the OGPC Group's revenue for the FYEs 2012, 2013, 2014, FPEs 2014 and 2015 respectively.

Depreciation expenses comprise of depreciation charges for OGPC's property, plant and equipment. For the past three (3) financial years and the two (2) financial periods under review, depreciation expenses accounted to approximately 5.1%, 7.1%, 6.5%, 5.1% and 7.3% of the OGPC Group's total operating expenses and amounted to less than 1% of the OGPC Group's total turnover for the past three (3) financial years and the two (2) financial periods under review.

Other operating expenses comprise mainly of travelling expenses incurred by the service personnel in carrying out Engineering Services at customers' premises, postage and courier charges, insurance and for certain years, realised and unrealised foreign exchange losses.

Other operating expenses include an unrealised foreign exchange loss of RM0.98 million and RM1.33 million recorded in the FYE 2012 and FPE 2014 respectively, in which accounted for 45.6% and 50.0 % of the OGPC Group's total operating expenses for the FYE 2012 and FPE 2014 respectively. The other operating expenses for the FYEs 2013 and 2014 and FPE 2015 accounted for 24.8%, 26.5% and 26.3% of total operating expenses of the OGPC Group.

The current organisation set up of the OGPC Group is highly scalable and allow it to expand its operations with just a core team of personnel, without much increase in its operating expenses.

### 1.2.5 Taxation

The effective income tax rates were 27.35%, 22.25%, 27.25%, 22.09% and 21.08% of the OGPC Group's PBT for the FYEs 2012, 2013 and 2014 and FPEs 2014 and 2015 respectively.

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## 2. FACTORS AND TRENDS AFFECTING FUTURE FINANCIAL CONDITION AND RESULTS

The primary factors affecting the OGPC Group's financial condition and results include but are not limited to the follows:-

### 2.1 Internal factors affecting operations and financial results

#### 2.1.1 Demand and supply conditions

The OGPC Group's revenue and profit are dependent on the demand and supply conditions as set out in Sections 8.17 and 8.18 of Appendix I(A) of this Circular.

#### 2.1.2 Support from principals

As set out in Section 14.3 of Appendix I(A) of this Circular, the OGPC Group has been maintaining good working relationships with its principals, some of which have been with the OGPC Group for more than fifteen (15) years. For clarification, product/equipment warranty is provided by the suppliers/principals. In the event that warranty is provided by OGPC directly to its clients, OGPC will obtain "back to back" warranty from its suppliers/principals. In the event of any issues with the product, the supplier/principal either replace the relevant parts/equipment and/or rectify the problem. The continued support from its principals for the supply of specialised products and equipment together with its warranties are important to the OGPC Group business. The OGPC Group's ability to secure new principals is also a key factor to its ability to continue supplying the wide range of products.

#### 2.1.3 Product mix

The revenue, gross margin and operating margin are substantially affected by the product mix or type of services offered. Generally, Sale of Equipment is the main contributor to OGPC Group revenue, whilst Engineering Services and sale of replacement parts provide higher margin. The revenue stream from replacement parts and maintenance is dependent on Sale of Equipment as high Sale of Equipment will create new opportunities for OGPC Group to provide Engineering Services and sale of replacement parts to these customers.

However, the selling prices of the equipment are largely dependent on the suppliers, as the cost of sales of this equipment typically represents a larger proportion of the final selling prices of new equipment. In contrast, there is greater flexibility and variability for the amount charged for Engineering Services.

### 2.2 External factors affecting operations and financial results

#### 2.2.1 Competition

OGPC Group operates in the O&G industry which is a relatively competitive industry. However, OGPC Group offers a wide range of equipment and solution services in support of the industry which include amongst others, heating systems, compressors, pumps, flange, valves, flare system, filters and loading arms.

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The OGPC Group is the appointed sales representative in Malaysia for a wide range of equipment and holds exclusive arrangement for equipment sale with international brand names. Types of equipment sold are primarily pumps, valves, compressors, loading arms, heating systems, filters, pipeline pigging, flare system and sampling systems with exclusivity for brand names such as Altair, Applicot, SPX, Exterran, FMC, Cameroon/Jiskoot, Peerless Grundfos, Pentair Valve, Pentair Thermal and AspenTech software.

The OGPC Group's products and services are provided to the giants of the industries namely, PETRONAS, ExxonMobil, Shell, MMHE, Talisman Malaysia Limited and Ranhill. The OGPC Group share a long term business relationship with these customers which spans over sixteen (16) years.

The OGPC Group has an established presence in the industry with competent personnel, diverse range of products and the continued support of its customers. With that, the Directors and management of the OGPC Group are confident that OGPC Group is well positioned to withstand future competition and to secure projects in the future despite heavy competition from existing and potential customers.

It is also the intention of the OGPC Group to further expand business within and beyond Malaysia.

**2.2.2 Effect of crude oil prices**

Most of the OGPC Group's major customers are involved extensively in the entire value chain of the O&G and petrochemical industry. One of the major factors which may affect the level of oil exploration, development, production and refining activities is the level of crude oil prices. Therefore, it follows that high crude oil prices will spur the activities of the O&G industry and vice versa. The level of activity in the O&G and petrochemical industries will affect the demand for the OGPC Group's specialised equipment.

The OPEC has considerable influence on the price of hydrocarbons through their control of a sizeable proportion of the world's production capacity and reserves. Although the influence of OPEC over the market price of hydrocarbons is not absolute, OPEC has a vested interest in ensuring that hydrocarbon prices do not collapse, and as such are likely to actively attempt to sustain hydrocarbon prices at an 'acceptable' level.

**2.3 Exceptional and extraordinary items**

For the past three (3) FYEs 2012 to 2014, there were no exceptional and extraordinary items except that in the FYE 2012, OGPC received a settlement sum of RM1.7 million from a litigation case involving the disposal of OGPC's previous subsidiaries.

Please refer to Section 1.2.3 of this Appendix I(B) for more details.

**2.4 Impact of inflation**

There is no material impact of inflation on the historical profit for the past three (3) FYEs 2012 to 2014.

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### 2.5 Impact of government, economic, fiscal or monetary policies

Risks relating to government, economic, fiscal or monetary policies, which may materially affect the OGPC Group's operations, are as set out in Section 9 of this Circular.

There are no government, economic, fiscal or monetary policies or factors that have materially impacted the historical profits for the past three (3) FYEs 2012 to 2014.

### 2.6 Impact of foreign exchange/interest rates/commodity prices

The functional and reporting currency of the OGPC Group is Ringgit Malaysia. Nevertheless, due to the nature of the O&G industry and its products are mainly sourced from international suppliers, the purchase of the products are mainly in foreign currencies such as USD, EUR, GBP, Yen and SGD. Therefore, the OGPC Group is also maintaining foreign currency accounts in USD, GBP and EUR.

As stated above, the costs of sales are mainly denominated in foreign currencies. Therefore, the revenue is also mainly denominated in foreign currencies such as USD, EUR and GBP, whereby, the denomination of revenue billings will usually follow OGPC Group suppliers' currency. This provides natural hedging whereby OGPC Group uses its proceeds in a particular currency to pay for the costs of sale in the same currency. This minimise the OGPC Group's foreign exchange exposure risk. In view of the volatile position of Ringgit Malaysia, the OGPC Group has also extended the scope of its existing facilities to include the hedging of foreign exchange fluctuations.

Operational expenses for its business operations such as manpower, travelling expenses and other administrative costs are denominated in RM.

The OGPC Group's provision of services and equipment, it is not materially affected by the fluctuations in commodity prices.

Other than trade lines, the OGPC Group does not have any financing facilities such as term loans and hence, the impact of interest rate on the operations is not expected to be material.

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## 3. LIQUIDITY AND CAPITAL RESOURCES

### 3.1 Working capital

The internal sources of cash comprise mainly cash generated from the revenue from operations, shareholders' equity, internally generated funds and retained earnings while external sources of financing are primarily from credit extended by the suppliers and the trade financing facilities.

OGPC Group generally reinvest most of the internally generated funds into the business and have a healthy cash balance without any gearing.

As at 31 December 2014, OGPC Group's total current assets stood at RM89.6 million and current liabilities stood at RM21.2 million, which gave rise to net working capital of RM68.4 million. Net working capital is defined as the difference between current assets and current liabilities. The current assets of OGPC Group comprised mainly of inventories of RM5.5 million, trade and other receivables (including tax recoverable) amounting to RM30.7 million and fixed deposits and cash and bank balances amounting to RM53.4 million.

Most of the customers normally settle outstanding bills within thirty (30) to ninety (90) days. At this juncture, the Directors of the OGPC Group do not foresee any circumstances which may materially affect the liquidity of the OGPC Group.

OGPC Group has low capital expenditure requirements as they are the authorised representative of specialised customised equipment and technical service provider. Currently, OGPC Group does not have any borrowing except for trade facilities with local financial institutions. OGPC Group has been maintaining good relationship with its bankers and is expected to be able to have the flexibility to take advantage of any new projects or investments as and when the need arises.

The Directors of the OGPC Group are of the opinion that after taking into account the existing unutilised sources of liquidity, banking facilities currently available to it and the dividend to be paid by OGPC Group (whereby the OGPC Group's adjusted net tangible assets would be rendered not less than RM44.38 million consisting of a cash balance of not less than RM25.20 million as at the completion date of the Proposed Acquisitions), the OGPC Group has adequate working capital for a period of twelve (12) months from the date of this Circular.

### 3.2 Cash flow

A summary of the cash flow of the OGPC Group for the FYE 2014 is as follows:-

| | FYE 2014<br>RM'000 |
|---|---|
| Net cash flow from operating activities | 9,813 |
| Net cash flow from investing activities | 226 |
| Net cash flow used in financing activities | (21,872) |
| **Net change in cash and cash equivalents** | **(11,833)** |
| Currency translation differences | 1,113 |
| Cash and cash equivalents at the beginning of the financial year | 60,926 |
| **Cash and cash equivalents at the end of the financial year** | **50,206** |

| | FYE 2014 RM'000 |
|---|---|
| **Cash and cash equivalents comprise the following:** | |
| Fixed deposits with licensed banks | 6,743 |
| Cash and cash balances | 46,634 |
| | 53,377 |
| Less: Fixed deposits pledged with licensed banks | (3,171) |
| | **50,206** |

**(a) Net cash flows generated from operating activities**

For the FYE 2014, the net cash inflow from operating activities amounted to RM9.8 million. This was due to PBT of RM26.0 million recorded for the year adjusted for unrealised foreign exchange gain, depreciation and interest income of RM1.1 million, RM0.5 million and RM0.2 million respectively.

The changes in working capital was due to cash outflows arising from decrease in trade and other payables of RM11.4 million, offset by decrease in receivables and inventories of RM2.1 million and RM0.2 million respectively. The OGPC Group paid income tax of RM6.4 million and received tax refund of RM0.2 million during the FYE 2014.

**(b) Net cash flows used in investing activities**

Using the cash flow generated from operating activities, the OGPC Group purchased new equipment amounting to approximately RM18,000 during the FYE 2014. This was offset by interest received by the OGPC Group of RM0.2 million.

**(c) Net cash flows used in financing activities**

In the FYE 2014, the net cash outflows from financing activities was mainly attributed to the payment of dividends of RM26.4 million and withdrawal of pledged deposits of RM4.6 million.

**3.3 Borrowings**

As at the LPD, the OGPC Group do not have any borrowings except for some trade lines used for its operations, which is in the usual course of day-to-day business of the OGPC Group.

**3.4 Breach of terms and conditions/covenants associated with credit arrangements/bank loan**

As at the LPD, the OGPC Group is not in breach of any terms and conditions or covenants associated with credit arrangements, which can materially affect the financial results or business operations, or the investments by holders of securities in the respective companies.

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**3.5 Type of financial instruments used**

For the past three (3) financial years, the OGPC Group's financial instruments comprised mainly cash and bank balances, trade and other receivables, trade and other payables and borrowings. As at the LPD, the outstanding foreign exchange forward contracts of the OGPC Group, which is used for foreign exchange hedging purposes, stands at RM3.26 million.

**3.6 Treasury policies and objectives**

The OGPC Group has been financing its operations through a combination of cash generated from operations, share capital, retained profits and credit from the suppliers. The principal uses of these cash resources are for the purchases of goods and to defray operating expenses as well as other expenses such as employee benefits expenses, upkeep of equipment, transport and travelling expenses. The funds were also used to finance capital expenditure and extending trade credit to the OGPC Group's customers.

The OGPC Group's purchases are denominated in various foreign currencies. Accordingly the sale to customer is also denominated in the same foreign currencies to provide natural hedge.

Further information on the OGPC Group's foreign exchange exposure, impact and mitigating factors are as described in Section 2.6 of this Appendix I(B).

**3.7 Material commitment**

As at the LPD and save as disclosed below, the Directors of the OGPC Group confirms that there are no material commitments for capital expenditure, which upon becoming enforceable may have a material effect on the financial position of the companies.

**3.8 Material litigation/arbitration**

As at the LPD, both OGPC and OGPCOG are not engaged whether as plaintiff or defendant in any legal action, proceedings, arbitration or prosecution for any criminal offence, which has a material effect on the financial position of these companies, and the Directors of the OGPC Group do not know of any proceedings pending or threatened or of any fact likely to give rise to any proceedings which might materially and adversely affect the financial position of these companies.

**3.9 Contingent liabilities**

As at the LPD, the Directors of the OGPC Group confirms that there are no contingent liabilities incurred or known to be incurred by the OGPC Group, which upon becoming due or enforceable, may have a material impact on the business, results of operations and financial results/position of the OGPC Group.

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## 3.10 Key financial ratios

The key financial ratios of OGPC Group are as follows:-

| | FYE | | |
|---|---|---|---|
| | 2012 | 2013 | 2014 |
| Trade receivables turnover period (days) [c] | 87 | 87 | 120 |
| Trade payables turnover period (days) [c] | 99 | 97 | 87 |
| Inventories turnover period (days) [c] | 14 | 21 | 35 |
| Current ratio (times) [a] | 3.7 | 3.4 | 4.2 |
| Gearing ratio (times) [b] | nil | nil | nil |

Notes:-
*(a) Computed based on total current assets divided by total current liabilities.*
*(b) Computed based on total borrowings over total equity/NA*
*(c) Computed based on closing balances in the FYEs 2012, 2013 and 2014.*

The current ratio of OGPC Group, which ranges from 3.4 times to 4.2 times, remained healthy throughout the financial years under review. The current ratio were quite consistent for the FYE 2012 and FYE 2013 and increased to 4.2 times in the FYE 2014. The higher current ratio in the FYE 2014 was mainly due to the decrease of trade payables from RM26.6 million to RM13.7 million.

### 3.10.1 Trade receivables turnover days

The OGPC Group's normal credit period given to trade debtors ranges from thirty (30) days to sixty (60). Other credit terms are assessed and approved on a case-by-case basis after taking into consideration, inter-alia, the background and credit-worthiness of the customers, payment history of the customers and the relationship with the customers.

Customers undertaking major projects may have more stringent requirement before payment can be processed and hence, result in longer turnover period. Despite the fluctuations in trade receivables turnover period, majority of the customers will usually settle their accounts within one hundred and twenty (120) days. During the past three (3) FYEs of 2012 to 2014, the OGPC Group's trade receivables turnover period increased from eighty seven (87) days to one hundred and twenty (120) days. The increase in trade receivable turnover in FYE 2014 was due to a customer requiring a longer approval process for finalising the Certificate of Progress Claim which was needed before payment can be made by the customer to the OGPC Group.

Additionally, OGPC Group shares long term relationships with its major customers and has not encountered any significant difficulty in the collection of receivables. For the past three (3) years from FYEs 2012 to 2014, OGPC Group did not make any provisions for doubtful debts as in the past, most outstanding trade receivables had been subsequently collected.

As at the LPD, approximately 99.1% or RM29.1 million of the total trade receivables for FYE 2014 had been subsequently collected. The Directors of the OGPC Group are of the opinion that all remaining outstanding receivables are recoverable.

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### 3.10.2 Trade payables turnover days

The normal credit terms granted by the trade suppliers range from thirty (30) to sixty (60) days. OGPC Group matches the payment with the collection from customers by assigning corresponding credit terms to its customers. In the event of delay in payment by customers, e.g. due to approval process, OGPC Group will still pay its creditors when the payment is due and payable from internally generated funds and trade facilities, if and when necessary. For your information, the OGPC Group's cash and bank balances as at the FYE 2012 to FYE 2014 are RM59 million, RM69 million and RM53 million respectively and hence it is unlikely that the OGPC Group could not meet its payment obligations. During the past three (3) FYEs 2012 to 2014, the OGPC Group's trade payables turnover period ranges from a low of eighty seven (87) days to a high of ninety nine (99) days.

### 3.10.3 Inventories turnover days

The inventory turnover period of the OGPC Group for the past three (3) FYEs 2012 to 2014, as shown in the table above, has been consistently below forty (40) days. The increase in the inventories turnover period from fourteen (14) days in 2012 to thirty five (35) days in 2014 was due to a higher stocks in transit as at 31 December 2014. Most of the inventories of OGPC Group were stock in transit which were in the process of being delivered to the customers.

The business of OGPC Group includes, among others, selling customised designed/engineered products, including operating spare and capital spare. Operating spare is spare parts that are needed during operation and will constantly be replaced due to wear and tear. Capital spare is spare parts which are critical and have to be replaced immediately to ensure continuation of operation. These spare parts are usually purchased upfront and kept by its customers at their premises to reduce down time in the event of breakdowns. Hence, the OGPC Group is only required to maintain minimal inventories which are adequate for the efficient day-to-day running of the business.

Given that most of the inventories are were work in progress and stock in transit, there is no material slow-moving or obsolete inventories as at 31 December 2014. There has not been any write-off of obsolete inventories in the past (3) FYEs 2012 to 2014.

### 3.10.4 Ageing analysis

The following table sets forth the ageing analysis for the trade receivables and payables of OGPC Group as at 31 December 2014:-

| RM'000 | 0 – 30 days | 31 – 60 days | 61 – 90 days | 91 – 120 days | >120 days | Total |
|---|---|---|---|---|---|---|
| Trade payables (RM'000) | 9,786 | 2,615 | 759 | 277 | 273 | 13,710 |
| % of total trade payables | 71.4 | 19.1 | 5.5 | 2.0 | 2.0 | 100.0 |
| Trade receivables (RM'000) | 17,523 | 8,039 | 960 | 490 | 2,380 | 29,392 |
| % of total trade receivables | 59.6 | 27.4 | 3.3 | 1.7 | 8.1 | 100.0 |

The total trade payables of OGPC Group as at 31 December 2014 of RM13.7 million are mainly within credit term. RM12.4 million or 90.5% of the total trade payables are within the period of sixty (60) days while RM1.0 million or 7.5% is within one hundred and twenty (120) days.

The total trade receivables as at 31 December 2014 amounts to RM29.4 million, of which RM25.6 million or 87.0% are within sixty (60) days. Approximately RM1.5 million of the total trade receivables within one hundred and twenty (120) days and only RM2.4 million or 8.1% is more than 120 days. As stated in Section 3.10.1 of this Appendix I(B), normal credit period given to customers ranges from thirty (30) days to sixty (60) days. However, certain customers undertaking major projects may have more stringent requirement before payment can be processed and hence, result in longer turnover period.

## 4. TREND INFORMATION

### 4.1 Business and financial prospects

As at the LPD, the conditions and operations of these companies have not been and are not expected to be affected by any of the following:-

(a) known trends, demands, commitments, events or uncertainties that have had or that reasonably expect to have, a material favourable or unfavourable impact on the OGPC Group's financial performance, position and operations other than those discussed in this section, Section 8 and Section 9 of this Circular;

(b) material commitment for capital expenditure;

(c) unusual, infrequent events or transactions or any significant economic changes that have materially affected the financial performance, position and operations of the OGPC Group, save as disclosed in this section and Section 8 and Section 9 of this Circular;

(d) known trends, demands, commitments, events or uncertainties that had/may resulted in a material impact on the OGPC Group revenue and/or profits save for those that have been disclosed in this section, O&G industry overview as set out in Section 8.2 of this Circular and future plans, strategies and prospects of the OGPC Group as set out in Section 8.4 of this Circular;

(e) known trends, demands, commitments, events or uncertainties that are reasonably likely to make the OGPC Group's historical financial statements not indicative of the future financial performance and position other than those disclosed in Appendix III of this Circular; and

(f) known trends, demands, commitments, events or uncertainties that have had or that reasonably expect to have, a material favourable or unfavourable impact on the OGPC Group's liquidity and capital resources, other than those discussed in Appendix III of this Circular.

The Directors of the OGPC Group are optimistic on the future prospect of the OGPC Group given the O&G industry outlook as set out in Section 8.2 of this Circular, the OGPC Group's qualitative assessment set out in Section 8 of Appendix I(A) of this Circular and the OGPC Group's dedication to implement the future plans and strategies set out in Section 15 of Appendix I(A) of this Circular.

## 4.2 Order book

It is common that in the O&G industry, customers do not place long-term orders. As at the LPD, the OGPC Group has unbilled confirmed orders on-hand amounting to approximately RM32.2 million, the details of which are as follows:

| | | Estimated outstanding period of delivery | | |
|---|---|---|---|---|
| | Total RM 'Mil | 0 – 3 months RM 'Mil | 4 – 6 months RM 'Mil | 7 – 9 months RM 'Mil |
| **Sale of Equipment** | | | | |
| OGPC | 28.2 | 17.4 | 10.6 | 0.2 |
| OGPCOG | 0.8 | 0.3 | 0.5 | - |
| **Engineering Services** | | | | |
| OGPC | 3.2 | * | * | * |
| OGPCOG | - | - | - | - |
| **Total** | **32.2** | | | |

*Note:-*

* *Relates to Engineering Services (including on-going services which cannot be quantified as at the LPD) rendered by the OGPC Group to its customers which such services are mostly rendered over a period of time, which an exact end date is not feasible to be accurately estimated. The RM3.2 million order book is not pursuant to any of the long term contract with its customers. Although the OGPC Group's customers are not obliged to engage the OGPC Group to perform the after-sales services, they would usually hire the OGPC Group for such services due to the close and cordial working relationships established throughout the years.*

These orders are however subject to cancellation, deferral or rescheduling by the customers. Accordingly, the order book as at any particular date may not be indicative of revenue for any succeeding period. In certain situations, such as major projects (with greater risk undertaking), the OGPC Group may include contractual terms to provide for the right to seek for compensation from its customers in the event of cancellation, not due to the OGPC Group's fault.

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Protégé
ASSOCIATES
BRAND | FINANCE | MARKET

11 January 2016

The Board of Directors
Dagang NeXchange Berhad
Tower 3, Avenue 5,
The Horizon, Bangsar South,
No. 8, Jalan Kerenchi,
59200 Kuala Lumpur.

Dear Sirs,

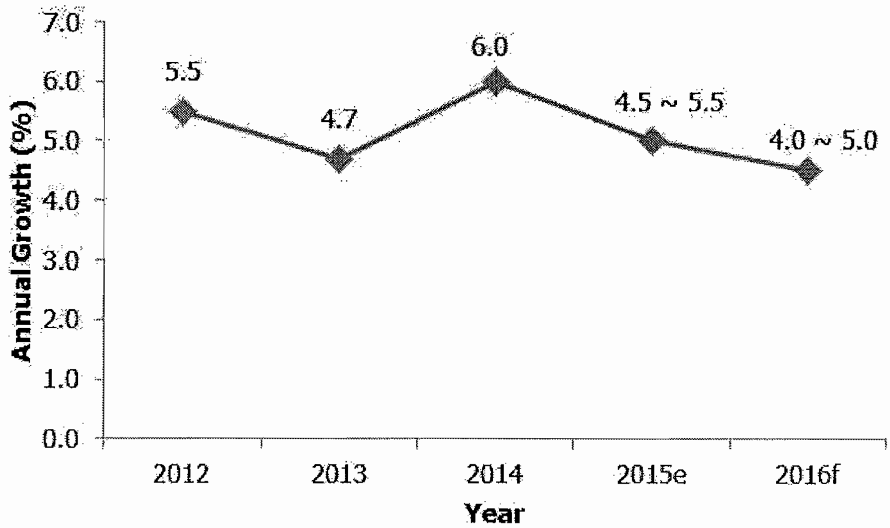
**Executive Summary of the Independent Market Research Report Titled 'Strategic Analysis of the Oil Field Services and Equipment Industry in Malaysia'**

This Executive Summary of the Independent Market Research ("IMR") report titled 'Strategic Analysis of the Oil Field Services and Equipment Industry in Malaysia' is prepared by Protégé Associates Sdn. Bhd. ("Protégé Associates") for inclusion in the Circular of Dagang NeXchange Berhad to its shareholders in relation to the proposed acquisitions of OGPC Sdn Bhd and OGPCOG Sdn Bhd.

# 1 MALAYSIAN ECONOMIC OVERVIEW

The Malaysian economy (measured in real gross domestic product ("GDP") growth) registered a strong finish in 2014. It expanded at a faster pace of 6.0 percent in 2014 on the back of continued expansion in domestic demand and an improvement in external trade performance. Figure 1 below depicts Malaysia's real GDP at constant 2010 prices from 2012 to 2016.

**Figure 1: Malaysia's Real GDP, 2012-2016**




*Notes:*

1. *e denotes estimate;*
2. *f denotes forecast.*

*Source: Extracted from the IMR report*

The construction and manufacturing sectors managed to grow at a faster pace of 9.9 percent and 4.8 percent respectively in the third quarter of 2015 as compared to their performance in the second quarter of 2015. The former was boosted by faster expansion in the civil engineering and specialised construction activities sub-sectors while the latter was driven by an improvement in the export-oriented industries.

The other three sectors recorded a slower growth in the third quarter of 2015. The lower growth registered in the mining and quarrying sector as well as the agriculture, forestry and fishery sector was due to a moderation in crude oil and palm oil production respectively. Meanwhile, a slower capital market activity and a moderation in household spending have led to a slower expansion in the services sector.

The Malaysian economy is expected to grow by between 4.5 percent to 5.5 percent and by between 4.0 percent to 5.0 percent in 2015 and 2016 respectively. The services sector is expected to remain the largest contributor to the Malaysian economy by accounting for more than half of Malaysia's real GDP in 2015 and 2016. In terms of pace of growth, the construction sector is expected to register the fastest pace among all the key economic sectors in 2015 and 2016.

# 2 OVERVIEW OF THE OIL AND GAS INDUSTRY

## 2.1 DESCRIPTION

The oil and gas industry revolves around the exploration, extraction and processing of fossil fuels, namely crude oil and natural gas.

Crude oil is a non-renewable fossil fuel comprising a mixture of hydrocarbons that exist in liquid form in the earth's crust.

Natural gas is a non-renewable fossil fuel, in the form of a combustible mixture of hydrocarbon gases. Originally discovered as a by-product of crude oil extraction, natural gas is commercially extracted from oil fields and natural gas fields.

The oil and gas industry is primarily segmented into the upstream, midstream and downstream sectors. The upstream sector involves the exploration, development and production (extraction) of crude oil or gas from onshore or offshore oil or gas fields, while the midstream sector involves the pipeline and transportation of crude oil or gas. Lastly, the downstream sector comprises the refining of natural gas; and the more commercial functions of distribution and marketing of oil and gas products. In general, the midstream sector is clustered with the downstream sector, hence dividing the oil and gas industry into 2 primary sectors; upstream and downstream.

### 2.1.1 Upstream Sector

The upstream sector is also known as the Exploration and Production ("E&P") sector as it involves the early phases in the oil and gas industry value chain. E&P activities are investment heavy and lengthy processes.

**Exploration**

Crude oil and natural gas are naturally found together, as they are formed through the same geological process. Wherever there is a crude oil deposit, natural gas is also found in pockets of spaces within the rocks. In order to ascertain the presence of crude oil and natural gas in a given geographical location, a series of geological studies is conducted by examining the surface structure of the earth. Once an area has been determined to have a high probability of containing crude oil and natural gas deposits, further tests are conducted.

Once the existence of crude oil and natural gas reservoirs has been confirmed, the extraction phase begins. Natural gas and crude oil are extracted from the ground through drilling methods.

### 2.1.2 Midstream Sector

The midstream sector is considered the conduit between the upstream and downstream and it mainly revolves around getting the crude oil retrieved in the upstream sector to the downstream processing facilities that process them into various finished products in consumers' daily lives. The midstream sector largely involves the processing, transportation, storing and/or marketing of crude or refined petroleum products.

### 2.1.3 Downstream Sector

In the downstream sector, the crude oil and natural gas are processed to yield usable petroleum products through distillation and refining processes.

The processed products are then distributed and sold to industries such as transportation, aviation, manufacturing and agriculture.

## 2.2 OVERVIEW OF THE GLOBAL OIL AND GAS INDUSTRY

The global oil and gas industry has been experiencing encouraging growth in recent years. Total production of crude oil in the world increased from approximately 72.91 million barrels per day in 2013 to 73.42 million barrels per day in 2014 supported mainly by non-Organization of the Petroleum Exporting Countries ("non-OPEC") production countries. In particular, the United States of America ("US") registered an estimated double-digit production growth rates in 2014, which can be partly attributed to the shale oil boom. Figure 2 below depicts the world crude oil production from 2011 to 2014.

**Figure 2: World Crude Oil Production, 2011-2014**

| Year | Crude Oil Production (1,000 barrels per day) |
|---|---|
| 2011 | 70,426.7 |
| 2012 | 72,784.6 |
| 2013 | 72,909.2 |
| 2014 | 73,420.1 |

*Source: Extracted from the IMR report*

On a closer look, major crude oil producers in the world for 2014 were the US, Russia and Saudi Arabia with 8.7 million barrels per day, 10.2 million barrels per day and 9.7 million barrels per day produced respectively. Figure 3 below depicts the crude oil production of selected producers in the world in 2014

**Figure 3: Crude Oil Production of Selected Producers in the World, 2014**

| Country | Crude Oil Production (1,000 barrels per day) |
|---|---|
| Algeria | 1,192.8 |
| Angola | 1,653.7 |
| Brazil | 2,254.6 |
| Canada | 1,399.0 |
| China | 4,194.6 |
| Iraq | 3,110.5 |
| Islamic Republic of Iran ("IR Iran") | 3,117.1 |

| Country | Crude Oil Production (1,000 barrels per day) |
|---|---|
| Kazakhstan | 1,344.8 |
| Libya | 479.9 |
| Kuwait[1] | 2,866.8 |
| Mexico | 2,428.0 |
| Nigeria | 1,807.0 |
| Norway | 1,517.8 |
| Saudi Arabia[1] | 9,712.7 |
| Russia | 10,221.1 |
| United Arab Emirates | 2,794.0 |
| US | 8,662.7 |
| Venezuela | 2,682.6 |

*Note: [1] Figures include share of production from Neutral Zone*

*Source: Extracted from the IMR report*

In 2014, crude oil production in the US improved to 8.7 million barrels per day. The hike in production stems from the US's extraction of energy from shale rocks. As with crude oil, the marketed production of natural gas in the world also increased in 2014. The world marketed production of natural gas in 2014 stood at approximately 3.57 trillion standard cubic metres as compared to 3.53 trillion standard cubic metres in 2013. Figure 4 below depicts the world marketed production of natural gas from 2011 to 2014.

**Figure 4: World Marketed Production of Natural Gas, 2011-2014**

| Year | Marketed Production of Natural Gas (million standard cubic metres) |
|---|---|
| 2011 | 3,343,305.8 |
| 2012 | 3,482,673.9 |
| 2013 | 3,531,837.0 |
| 2014 | 3,566,249.3 |

*Note:*
*Marketed production corresponds to gross production, minus the volumes of gas flared or re-injected into fields, minus the shrinkage.*

*Source: Extracted from the IMR report*

Major marketed producers of natural gas in 2014 were the US and Russia with approximately 729.53 billion standard cubic metres and approximately 642.92 billion standard cubic metres produced respectively. Figure 5 below depicts the marketed production of natural gas of selected producers in the world in 2014.

**Figure 5: Marketed Production of Natural Gas of Selected Producers in the World, 2014**

| Country | Marketed Production of Natural Gas (million standard cubic metres) |
|---|---|
| Canada | 161,274 |
| China | 128,481 |
| IR Iran | 212,796 |
| Norway | 111,014 |
| Qatar | 174,057 |
| Russia | 642,917 |
| US | 729,529 |

*Source: Extracted from the IMR report*

In terms of international trade, major exporters of crude oil are Russia, Iraq, Saudi Arabia, United Arab Emirates, Nigeria and Canada. Saudi Arabia was the biggest crude oil exporter in 2014 with more than 7 million barrels per day recorded for the year. Figure 6 below depicts the crude oil exports of selected countries in 2014.

**Figure 6: Crude Oil Exports of Selected Countries, 2014**

| Country | Crude Oil Exports (1,000 barrels per day) |
|---|---|
| Angola | 1,608 |
| Canada | 2,266 |
| Iraq | 2,516 |
| IR Iran | 1,109 |
| Kuwait | 1,995 |
| Mexico | 1,220 |
| Nigeria | 2,120 |
| Norway | 1,203 |
| Russia | 4,487 |
| Saudi Arabia | 7,153 |

| Country | Crude Oil Exports (1,000 barrels per day) |
|---|---|
| United Arab Emirates | 2,497 |
| Venezuela | 1,965 |

*Note: Data may include exports of lease condensates, re-exports, petroleum products from gas plants and changes in the quantity of oil and petroleum products in transit*

*Source: Extracted from the IMR report*

Major importers of crude oil are the US, China, Japan, India and South Korea. The US was the biggest crude oil importer in 2014 with more than 7 million barrels per day recorded for the year. It was followed by China which its crude oil import grew by 9.6 percent to approximately 6.2 million barrels per day in 2014. This trend is expected to grow and China is expected to take the lead as the global importer of crude oil from 2015 onwards. Figure 7 below depicts the crude oil imports of selected countries in 2014.

**Figure 7: Crude Oil Imports of Selected Countries, 2014**

| Country | Crude Oil Imports (1,000 barrels per day) |
|---|---|
| China | 6,186 |
| France | 1,077 |
| Germany | 1,804 |
| India | 3,787 |
| Italy | 1,087 |
| Japan | 3,237 |
| Netherlands | 957 |
| South Korea | 2,469 |
| Spain | 1,192 |
| United Kingdom | 999 |
| US | 7,388 |

*Note: Data may include imports of lease condensates and changes in the quantity of oil in transit*

*Source: Extracted from the IMR report*

A mixed trend in terms of oil trade has been witnessed among the different countries throughout the world as at November 2015. US crude oil imports stood at 7.4 million barrels per day in November 2015, representing 173,000 barrels per day higher from its previous month. In Japan, crude oil imports dropped by 141,000 barrels per day in October as compared to the previous month. China's crude oil import declined by 597,000 barrels per day in October while India's crude oil import was 176,000 barrels per day lower in October 2015 comparing to the previous month.

In terms of natural gas, major exporters are the US, Canada, Russia, Netherlands, Norway, Qatar, Turkmenistan and Algeria. Russia was the biggest natural gas exporter in 2014 with approximately 195.2 billion standard cubic metres recorded for the year. Indonesia and Malaysia are major exporters of natural gas in the Southeast Asia region in 2014. Figure 8 below depicts the natural gas exports of selected countries in 2014.

**Figure 8: Natural Gas Exports of Selected Countries, 2014**

| Country | Natural Gas Exports (million standard cubic metres) |
|---|---|
| Algeria | 44,190 |
| Canada | 79,317 |
| Indonesia | 32,144 |
| Malaysia | 35,400 |
| Netherlands | 58,661 |
| Norway | 106,759 |
| Qatar | 122,628 |
| Russia | 195,175 |
| Turkmenistan | 45,796 |
| US | 43,350 |

*Source: Extracted from the IMR report*

Major importers of natural gas are the US, France, Germany, Italy, Turkey, the United Kingdom, Japan, China and South Korea. Japan was the biggest natural gas importer in 2014 with more than 120 billion standard cubic metres recorded for the year. Figure 9 below depicts the natural gas imports of selected countries in 2014.

**Figure 9: Natural Gas Imports of Selected Countries, 2014**

| Country | Natural Gas Imports (million standard cubic metres) |
|---|---|
| China | 55,944 |
| France | 45,134 |
| Germany | 105,490 |
| Italy | 55,758 |

| Country | Natural Gas Imports (million standard cubic metres) |
|---|---|
| Japan | 123,908 |
| Russia | 29,130 |
| South Korea | 49,017 |
| Spain | 36,383 |
| Turkey | 49,043 |
| Ukraine | 19,133 |
| United Kingdom | 43,405 |
| US | 76,328 |

*Source: Extracted from the IMR report*

Despite the growing production of oil, total proven crude oil reserves in the world have continued to increase in recent years. The total world proven crude oil reserves increased to approximately 1.493 trillion barrels as at the end of 2014, as compared to 1.490 trillion barrels as at the end of 2013. Countries that had large proven crude oil reserves of more than 100 billion barrels as at end of 2014 were Venezuela, IR Iran, Iraq, Kuwait and Saudi Arabia. Figure 10 below depicts the world proven crude oil reserves from 2011 to 2014.

**Figure 10: World Proven Crude Oil Reserves, 2011-2014**

| Year | Proven Crude Oil Reserves (million barrels) |
|---|---|
| 2011 | 1,467,811 |
| 2012 | 1,480,251 |
| 2013 | 1,490,134 |
| 2014 | 1,492,880 |

*Note: Figures as at year-end*

*Source: Extracted from the IMR report*

On the other hand, total proven natural gas reserves in the world improved to 201.14 trillion standard cubic metres in 2014, as compared to 199.41 trillion standard cubic metres in 2013. Countries that had more than 10 trillion standard cubic metres in proven natural gas reserves in 2014 were Russia, IR Iran and Qatar. Figure 11 below depicts the world proven natural gas reserves from 2011 to 2014.

**Figure 11: World Proven Natural Gas Reserves, 2011-2014**

| Year | Proven Natural Gas Reserves (billion standard cubic metres) |
|---|---|
| 2011 | 196,496 |
| 2012 | 200,069 |
| 2013 | 199,410 |
| 2014 | 201,140 |

*Source: Extracted from the IMR report*

The rising trend in the proven crude oil and natural gas reserves from 2013 to 2014 was mainly due to the continuing oil and gas exploration activities and the advancement in oil and gas related technologies. Total producing wells (excluding shut-in wells) around the world registered a 8.0 percent growth from the period of 2013 to 2014. Figure 12 below depicts the number of producing wells in the world from 2011 to 2014.

**Figure 12: World Producing Wells, 2011-2014**

| Year | Number of Producing Wells |
|---|---|
| 2011 | 971,879 |
| 2012 | 981,598 |
| 2013 | 981,696 |
| 2014 | 1,060,232 |

*Note: Excluding shut-in wells*

*Source: Extracted from the IMR report*

Moving downstream, the global refining capacity has continued to expand in 2014. World refining capacity in 2014 stood at 95.7 million barrels per calendar day – a slight increase of approximately 1.0 percent from the 94.8 million barrels per calendar day in 2013. Figure 13 below depicts the world refinery capacity from 2011 to 2014.

**Figure 13: World Refinery Capacity, 2011-2014**

| Year | Refinery Capacity (1,000 barrels per calendar day) |
|---|---|
| 2011 | 94,274.0 |
| 2012 | 94,725.7 |
| 2013 | 94,808.2 |
| 2014 | 95,716.6 |

*Source: Extracted from the IMR report*

In 2014, more than a quarter of the world refinery capacity was located in the Asia and Pacific region. China, Japan, India, South Korea, Singapore, Taiwan and Indonesia each had refinery capacity of more than 1 million barrels per calendar day that year. Countries outside the Asia and Pacific region with significant refinery capacity in 2014 included the US, Russia, Germany, Italy, Canada, Brazil and Saudi Arabia. Figure 14 below depicts the refinery capacity of selected countries in 2014.

**Figure 14: Refinery Capacity of Selected Countries, 2014**

| Country | Refinery Capacity (1,000 barrels per calendar day) |
|---|---|
| Brazil | 2,208.0 |
| Canada | 2,049.7 |
| China | 12,337.3 |
| India | 4,319.0 |
| Italy | 2,046.0 |
| Japan | 3,947.0 |
| Germany | 2,188.0 |
| Russia | 6,004.0 |
| Saudi Arabia | 2,907.0 |
| South Korea | 2,958.5 |
| US | 17,859.0 |

*Source: Extracted from the IMR report*

Refinery utilisation rate in the US was recorded at an average of 92.1 percent in December 2014. And in November 2015, the refinery utilisation rate in the US stood at an average of 90.3 percent. As for their European counterparts, refineries ran at an average of 79.3 percent in December 2014 and improved to an average of 90.6 percent in October 2015. Meanwhile in Japan, the country's refinery utilisation rate stood at an average of 89.9 percent in December 2014 and declined to 80.6 percent in November 2015.

Petroleum products are obtained from the processing of crude oil, unfinished oils, natural gas liquids and other hydrocarbon compounds. The output of petroleum products in the world increased from approximately 85.8 million barrels per day in 2013 to approximately 86.7 million barrels per day in 2014. The US, China and Russia registered the highest output of petroleum products in 2014 with 19.4 million barrels per day, 10.8 million barrels per day and 6.6 million barrels respectively. The following Figure 15 depicts the world output of petroleum products from 2011 to 2014.

**Figure 15: World Output of Petroleum Products, 2011-2014**

| Year | Output of Petroleum Products (1,000 barrels per day) |
|---|---|
| 2011 | 85,565 |
| 2012 | 85,666 |
| 2013 | 85,777 |
| 2014 | 86,668 |

*Source: Extracted from the IMR report*

Major exporters of petroleum products are the US, Russia, Netherlands and Singapore. The US was the biggest petroleum products exporter in 2014 with 3.8 million barrels per day recorded for the year. Figure 16 below depicts the petroleum products exports of selected countries in 2014.

**Figure 16: Petroleum Products Exports of Selected Countries, 2014**

| Country | Petroleum Products Exports (1,000 barrels per day) |
|---|---|
| Netherlands | 2,129 |
| Russia | 2,183 |
| Saudi Arabia | 988 |
| Singapore | 1,772 |
| US | 3,834 |

*Note: Data may include re-exports and exports of petroleum products from gas plants, change in the quantity of petroleum products in transit.*

*Source: Extracted from the IMR report*

Major importers of petroleum products are the US, Netherlands, Japan and Singapore. Singapore was the biggest petroleum products importer in 2014 with more than 2 million barrels per day recorded for the year. Figure 17 below depicts the petroleum products imports of selected countries in 2014.

**Figure 17: Petroleum Products Imports of Selected Countries, 2014**

| Country | Petroleum Products Imports (1,000 barrels per day) |
|---|---|
| China | 958 |
| France | 905 |
| Japan | 1,076 |
| Netherlands | 1,802 |
| Singapore | 2,389 |
| US | 1,356 |

*Note: Data may include petroleum products from gas plants and change in the quantity of petroleum products in transit.*

*Source: Extracted from the IMR report*

In terms of pricing, oil prices were generally lower in 2014 as compared to 2013 based on the price trend in the OPEC Reference Basket ("ORB") that has been used as a proxy to the overall oil pricing trend in the world. The yearly ORB price in 2014 dropped to USD96.29 per barrel as compared to USD105.87 per barrel in 2013. Figure 18 below depicts the yearly ORB prices from 2011 to 2014.

**Figure 18: Yearly ORB Prices, 2011-2014**

| Year | Yearly Basket Price (USD per barrel) |
|---|---|
| 2011 | 107.46 |
| 2012 | 109.45 |
| 2013 | 105.87 |
| 2014 | 96.29 |

*Note: ORB is currently made up of Saharan Blend (Algeria), Girassol (Angola), Oriente (Ecuador), Iran Heavy (IR Iran), Basrah Light (Iraq), Kuwait Export (Kuwait), Ess Sider (Libya), Bonny Light (Nigeria), Marine (Qatar), Arab Light (Saudi Arabia), Murban (United Arab Emirates) and Merey (Venezuela)*

*Source: Extracted from the IMR report*

The unfavourable pricing trend was attributed to the increasing shale oil output from the US as a result of new technology development which allows the drilling of hydrocarbons deep beneath the Earth's surface. While production expansion from the US has raised the global crude oil inventories, demand has underperformed with weakening demand from Europe and Japan. These have resulted in oversupply within the oil and gas industry and accordingly, weighing on the commodity pricing.

For the first half of 2015, crude oil price remained on the low side (as compared to over USD100 per barrel in previous years), with monthly average prices fluctuating between USD47.5 to USD62.5 per barrel. Cheaper oil should impact expenditure on production and limit the growth in supply. Accordingly, US onshore drilling activity in parts of both emerging and mature oil production regions declined by 288 rigs to 1,263 rigs in January 2015, from its climax of 1,551 rigs recorded in early October 2014. The decline in production output has resulted in slight rebound in crude oil price to USD54.9 per barrel in February 2015. Oil prices continued to fluctuate in the subsequent months. In March 2015, crude oil price slightly dropped to an average of USD52.8 per barrel due to crude oil stockpiles in US. However in April 2015, crude oil price increased to an average of USD57.4 per barrel, bolstered by lower stockpiles in US, disruption in Libyan crude oil exports due to protests and subsequently inflated selling prices by Saudi Arabia. In May and June, oil price stood at USD62.5 per barrel and USD61.3 per barrel respectively. And from July to September, monthly average of crude oil prices stood at USD54.4 per barrel, USD45.7 per barrel and USD46.3 per barrel respectively. Crude oil recorded average price of around USD47.0 per barrel and USD43.0 per barrel in October and November respectively. In December, crude oil price plunged to below USD40 per barrel amid concern about global oversupply of the said commodity subsequent to the decision by OPEC to maintain its current production levels.

On a positive note, the medium-term and long-term oil demand in the world is expected to continue rising moving forward. World oil demand in 2015 and 2040 is projected to reach 92.3 million barrels per day and 111.1 million barrels per day respectively on the back of sustained global economic growth and rising car ownership. Nevertheless, global oil demand is expected to be slightly restrained due to the development of advanced vehicle technologies. Figure 19 below depicts world oil demand outlook in 2015, 2020, 2025, 2030 and 2035 and 2040.

### Figure 19: World Oil Demand Outlook, 2015, 2020, 2025, 2030, 2035 and 2040

| Year | Oil Demand (million barrels per day) |
|---|---|
| 2015 | 92.3 |

| Year | Oil Demand (million barrels per day) |
|---|---|
| 2020 | 96.9 |
| 2025 | 101.3 |
| 2030 | 104.8 |
| 2035 | 108.0 |
| 2040 | 111.1 |

*Source: Extracted from the IMR report*

On a closer look, the demand for petroleum products in the world is also expected to rise over the medium-term and long-term period. Figure 20 below depicts the global product demand in 2015, 2020, 2025, 2030 and 2035 and 2040.

**Figure 20: Global Product Demand, 2015, 2020, 2025, 2030, 2035 and 2040**

| Products | | million barrels per day | | | | | |
|---|---|---|---|---|---|---|---|
| | | **2015** | **2020** | **2025** | **2030** | **2035** | **2040** |
| Light products | Ethane / Liquefied petroleum gas | 10.3 | 11.0 | 11.6 | 12.1 | 12.4 | 12.6 |
| | Naphtha | 6.2 | 6.6 | 7.1 | 7.6 | 8.1 | 8.8 |
| | Gasoline | 23.6 | 24.6 | 25.4 | 25.9 | 26.3 | 26.7 |
| Middle distillates | Jet / Kerosene | 6.8 | 7.3 | 7.8 | 8.2 | 8.7 | 9.2 |
| | Diesel / Gasoil | 27.1 | 29.7 | 31.7 | 33.3 | 34.7 | 36.1 |
| Heavy products | Residual fuel* | 7.8 | 7.1 | 6.9 | 6.6 | 6.3 | 6.0 |
| | Other** | 10.4 | 10.6 | 10.9 | 11.2 | 11.5 | 11.8 |
| **Total** | | **92.3** | **96.9** | **101.3** | **104.8** | **108.0** | **111.1** |

*Notes:*

** Includes refinery fuel oil*

*** Includes bitumen, lubricants, waxes, still gas, coke, sulphur, direct use of crude oil, etc.*

*Source: Extracted from the IMR report*

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## 2.3 OVERVIEW OF THE MALAYSIAN OIL AND GAS INDUSTRY

Malaysia's total average production increased by 2.3 percent from 1,621,000 barrels of oil equivalent ("boe") per day in 2013 to 1,658,000 boe per day in 2014.

On a closer look, the average crude oil and condensate production in Malaysia increased by 4.9 percent to 603,000 boe per day in 2014 as compared to 575,000 boe per day in 2013 while gas production averaged at 1,055,000 boe per day in 2014 as compared to 1,046,000 boe per day in 2013. Figure 21 below depicts Malaysia's average oil and gas production from 2011 to 2014.

**Figure 21: Malaysia's Average Oil and Gas Production, 2011-2014**

| Year | '000 boe per day | | | |
|---|---|---|---|---|
| | Crude Oil | Condensate | Gas | Total |
| 2011 | 460 | 109 | 989 | 1,558 |
| 2012 | 472 | 114 | 1,001 | 1,587 |
| 2013 | 462 | 113 | 1,046 | 1,621 |
| 2014 | 494 | 109 | 1,055 | 1,658 |

*Source: Extracted from the IMR report*

There was also an improvement in the value of gross output of petroleum and natural gas industry in Malaysia for 2013. The value of gross output of petroleum and natural gas industry in Malaysia increased from RM109.37 billion in 2012 to RM115.10 billion in 2013. Figure 22 below depicts the value of gross output of the petroleum and natural gas industry in Malaysia from 2011 to 2013.

**Figure 22: Value of Gross Output of the Petroleum and Natural Gas Industry in Malaysia, 2011-2013**

| Year | Value of Gross Output (RM billion) | Annual Growth (%) |
|---|---|---|
| 2011 | 109.19 | 11.3 |
| 2012 | 109.37 | 0.2 |
| 2013 | 115.10 | 5.2 |

*Source: Extracted from the IMR report*

The overall production level of crude oil in Malaysia is shaped by the National Depletion Policy, which was implemented to safeguard the exploitation of the national oil reserves and therefore ensuring the sustainability of its development. Malaysia's total discovered resources as at 1 January 2015 stood at 23.2 billion boe as compared to 22.6 billion boe as at 1 January 2014. Figure 23 below depicts Malaysia's Petroleum Resources as at 1 January 2014 and 1 January 2015.

**Figure 23: Malaysia's Petroleum Resources, 1 January 2014 and 1 January 2015**

| Petroleum Resources (billion boe) | | 1 January 2014 | 1 January 2015 |
|---|---|---|---|
| Crude Oil and Condensate | Reserve (2P) | 3.8 | 3.6 |
| | Contingent Resources (2C) | 2.0 | 2.4 |
| Natural Gas | Reserve (2P) | 6.6 | 7.2 |
| | Contingent Resources (2C) | 10.2 | 10.0 |
| **Total Discovered** | | **22.6** | **23.2** |
| Petroliam Nasional Berhad **("PETRONAS") Entitlement** | | **7.5** | **7.9** |
| **ORRR (3 years average)** | | **1.94x** | **2.07x** |

*Note: 2P denotes proved and probable while 2C denotes best estimate*

*Source: Extracted from the IMR report*

In 2014, 12.9 million metric tonnes of crude petroleum and 25.5 million metric tonnes of liquefied natural gas ("LNG") were exported – higher than the 11.8 million metric tonnes of crude petroleum and 24.9 million metric tonnes of LNG exported in 2013. During the same year, total imports volume for crude petroleum increased to 10.4 million metric tonnes as compared to 8.9 million metric tonnes in 2013. Figure 24 below depicts Malaysia's external trade volume for crude petroleum and LNG from 2011 to 2014.

**Figure 24: Malaysia's External Trade Volume of Crude Petroleum and LNG, 2011-2014**

| Year | Exports ('000 metric tonnes) | | Imports ('000 metric tonnes) |
|---|---|---|---|
| | Crude Petroleum | LNG | Crude Petroleum |
| 2011 | 12,682 | 24,487 | 9,687 |
| 2012 | 11,863 | 23,350 | 10,854 |
| 2013 | 11,819 | 24,873 | 8,931 |
| 2014 | 12,947 | 25,455 | 10,433 |

*Source: Extracted from the IMR report*

The total exports value of crude petroleum and LNG in 2014 stood at RM33.79 billion and RM64.29 billion respectively while the total imports value of crude petroleum stood at RM24.99 billion for the year. Figure 25 below depicts Malaysia's external trade value for crude petroleum and LNG from 2011 to 2014.

**Figure 25: Malaysia's External Trade Value of Crude Petroleum and LNG, 2011-2014**

| Year | Exports (RM billion) | | Imports (RM billion) |
|---|---|---|---|
| | Crude Petroleum | LNG | Crude Petroleum |
| 2011 | 32.45 | 52.05 | 24.01 |
| 2012 | 31.95 | 56.13 | 27.28 |
| 2013 | 31.64 | 59.57 | 21.87 |
| 2014 | 33.79 | 64.29 | 24.99 |

*Source: Extracted from the IMR report*

At the downstream side, the production volume of selected main refined petroleum products in Malaysia from 2011 to 2014 is depicted in Figure 26 below.

**Figure 26: Production Volume of Selected Main Refined Petroleum Products in Malaysia, 2011-2014**

| Selected Main Refined Petroleum Products | '000 metric tonnes | | | |
|---|---|---|---|---|
| | 2011 | 2012 | 2013 | 2014 |
| Blended lubricating oil | 148 | 148 | 154 | 156 |
| Diesel Oil | 10,000 | 11,755 | 11,234 | 11,070 |
| Fuel Oil | 2,790 | 3,226 | 2,399 | 2,935 |
| Gasoline | 5,510 | 5,543 | 5,331 | 5,289 |

| Selected Main Refined Petroleum Products | '000 metric tonnes | | | |
|---|---|---|---|---|
| | **2011** | **2012** | **2013** | **2014** |
| Kerosene | 3,560 | 3,504 | 3,270 | 3,487 |
| Liquefied Petroleum Gas | 3,036 | 2,804 | 2,534 | 2,381 |
| Naphtha | 3,397 | 4,163 | 3,969 | 3,486 |

*Source: Extracted from the IMR report*

There was a mixing trend in the production of the selected main refined petroleum products in 2014, with the production volume of blended lubricating oil, fuel oil and kerosene increasing in the year, while the production volume of diesel oil, gasoline, liquefied petroleum gas and naphtha decreasing during the said period. The sales value of selected main refined petroleum products in Malaysia from 2011 to 2013 is depicted in Figure 27 below.

**Figure 27: Sales Value of Selected Main Refined Petroleum Products in Malaysia, 2011-2013**

| Selected Main Refined Petroleum Products | RM million | | |
|---|---|---|---|
| | **2011** | **2012** | **2013** |
| Blended lubricating oil | 802 | 805 | 826 |
| Diesel Oil | 30,078 | 33,625 | 34,033 |
| Fuel Oil | 3,928 | 5,379 | 4,148 |
| Gasoline | 15,910 | 24,624 | 18,107 |
| Kerosene | 10,605 | 11,040 | 9,823 |
| Liquefied Petroleum Gas | 2,289 | 2,711 | 2,264 |
| Naphtha | 8,040 | 8,961 | 9,122 |

*Source: Extracted from the IMR report*

Among all the selected main refined petroleum products depicted in Figure 27, the sales value of diesel oil was the highest with RM34.03 billion recorded in 2013. It is followed by gasoline with a sales value of RM18.11 billion. The sales value of blended lubricating oil was the lowest at only RM826 million.

In 2014, the export volume of petroleum products decreased to 22.4 million metric tonnes as compared to 22.9 million metric tonnes in 2013. During the same year, total import volume for crude petroleum increased to 26.6 million metric tonnes as compared to 25.4 million metric tonnes in 2013. Figure 28 below depicts Malaysia's external trade volume for petroleum products from 2011 to 2014.

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**Figure 28: Malaysia's External Trade Volume of Petroleum Products, 2011-2014**

| Year | Exports ('000 metric tonnes) | Imports ('000 metric tonnes) |
|---|---|---|
| 2011 | 12,181 | 12,808 |
| 2012 | 17,653 | 17,507 |
| 2013 | 22,853 | 25,361 |
| 2014 | 22,376 | 26,628 |

*Source: Extracted from the IMR report*

The total export value of petroleum products in 2014 stood at RM60.42 billion while the total import value of petroleum products stood at RM74.56 billion for the year. Figure 29 below depicts Malaysia's external trade value for petroleum products from 2011 to 2014.

**Figure 29: Malaysia's External Trade Value of Petroleum Products, 2011-2014**

| Year | Exports (RM billion) | Imports (RM billion) |
|---|---|---|
| 2011 | 33.04 | 32.72 |
| 2012 | 47.63 | 48.20 |
| 2013 | 61.28 | 69.57 |
| 2014 | 60.42 | 74.56 |

*Source: Extracted from the IMR report*

More recently, the oil and gas industry were affected by unfavourable prices. Lower oil prices adversely affect the business profitability of oil companies thus forcing them to reassess their development projects and focus on driving prudent cost management. In Malaysia, PETRONAS expects oil prices to remain significantly lower than 2014 with an average price of USD55 per barrel for 2015. Accordingly, PETRONAS has announced a cut in its operating expenditure by 24.0 percent. Nonetheless, the impact could be offset by an increase in PETRONAS capital expenditure for the overall oil and gas industry to RM70 billion in 2015 as compared to RM60 billion in 2014. Growth in the local oil and gas industry is also expected to be supported by the inclusion of oil, gas and energy as one of the National Key Economic Areas ("NKEAs") that are given priority in terms of investments and policy support under the Economic Transformation Programme ("ETP"). A 5.0 percent annual growth in the decade from 2010 to 2020 is being targeted by the oil, gas and energy NKEA.

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# 3 STRATEGIC ANALYSIS OF THE OIL FIELD SERVICES AND EQUIPMENT INDUSTRY IN MALAYSIA

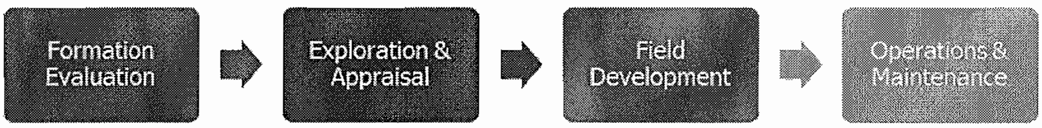
## 3.1 BACKGROUND AND DEFINITION

The oil field services and equipment ("OFSE") industry revolves around the provision of services and equipment supporting the upstream sector, or E&P activities, of the oil and gas industry. To provide a better understanding of the OFSE industry, this chapter begins with an introduction to the E&P activities of the oil and gas industry, followed by an introduction to the OFSE industry.

### 3.1.1 The E&P Activities

The E&P activities are the early phases in the oil and gas industry value chain. Generally, the E&P activities covers 4 main stages, namely formation evaluation, exploration and appraisal, field development, and operations and maintenance of oil and gas reserves. Figure 30 below details the E&P activities of the oil and gas industry, with description on each stage of the E&P activities.

**Figure 30: The E&P Activities of Oil and Gas Industry**




| Stage | Description |
|---|---|
| Formation evaluation | Using seismic acquisition to determine the ability of a borehole to produce petroleum. |
| Exploration and appraisal | Conducting the drilling phase to determine the type and volume of oil and gas reserves. |
| Field development | Drilling and completion of production wells, and construction and fabrication of processing facilities such as oil rigs or offshore platforms. |

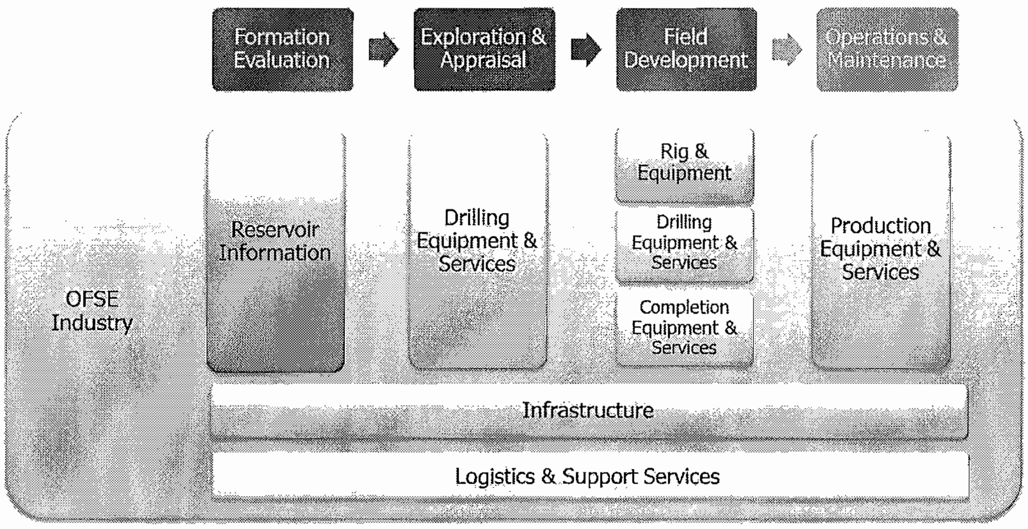
| Stage | Description |
|---|---|
| Operation and maintenance | Commencement of hydrocarbon production, and maintenance of production wells and processing facilities. |

*Source: Extracted from the IMR report*

## 3.1.2 The OFSE Industry

The OFSE industry plays an important supporting role to the upstream sector through the provision of services and equipment that are required for E&P activities. Generally, the provision of services and equipment by the OFSE industry can be categorised into 7 main segments namely reservoir information, drilling equipment and services, rig and equipment, completion equipment and services, production equipment and services, infrastructure, and lastly, logistics and support services as depicted in Figure 31 below.

**Figure 31: E&P Activities and the OFSE Industry**



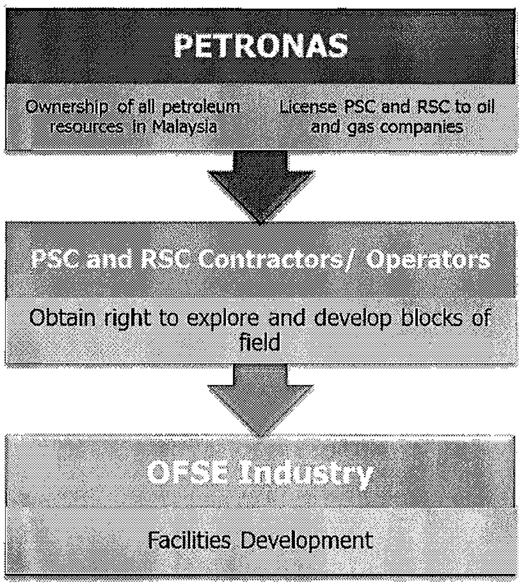

*Source: Extracted from the IMR report*

The different segments of the OFSE industry caters to different stages in the E&P activities. Of all 4 stages of E&P activities (i.e. formation evaluation, exploration and appraisal field development and operation and maintenance), field development is the most expenditure intensive and dependent on the OFSE industry for the provision of rig and equipment, drilling equipment and services, completion equipment and services, and infrastructure, logistics and other support services.

OGPC Sdn Bhd ("OGPC") and OGPC O&G Sdn Bhd ("OGPCOG") (collectively known as OGPC Group hereon) are involved in the OFSE industry with the provision of completion equipment and services, as well as production equipment and services. Its completion equipment and services include valves, heating systems, compressors and pumps, whereas its production equipment and services include pump servicing, pipeline cleaning, loading arm servicing, compressor servicing, flare system servicing, valve servicing, pipeline insulation, heat tracing and underwater inspection.

## 3.2 THE E&P PROJECT LIFECYCLE IN MALAYSIA

**Figure 32: The E&P Project Lifecycle in Malaysia, and the Respective Players**




*Source: Extracted from the IMR report*

**PETRONAS**

PETRONAS was incorporated on 17 August 1974 as the national oil company of Malaysia. Under the Petroleum Development Act 1974, PETRONAS was granted the ownership of all petroleum resources in the country and was entrusted with the duty to undertake development and value adding activities of petroleum resources in the country. This makes PETRONAS the primary regulator of oil and gas industry in Malaysia where it manages the optimal exploitation of hydrocarbon resources to ensure the sustainable development of the country's petroleum industry, and to improve domestic acreages to attract investment and protect the national interest. In an E&P project, PETRONAS owns the right to license

Production Sharing Contract ("PSC") and Risk Service Contract ("RSC") to oil and gas companies to perform exploration and development of hydrocarbon resources in Malaysia.

**PSC and RSC Contractors/ Operators**

The PSC and RSC contractors/ operators obtain the right to explore and develop blocks of oil fields from PETRONAS. The PSC contractors assume all risks and are responsible for the sourcing of all funds in initiating hydrocarbon production. PETRONAS is involved in oil and gas exploration and development via its wholly owned subsidiary, PETRONAS Carigali, which is also among one of the PSC contractors. By owning the right, these PSC contractors are permitted to explore and develop the blocks of fields outlined in the contract for pre-determined period of time.

In addition to the PSC mechanism, PETRONAS also awards RSC for the development of small and marginal fields. This is aimed at improving the oil production in Malaysia by encouraging oil and gas contractors to tap into smaller and marginal fields that were neglected in the past. Under the RSC mechanism, PETRONAS is designated as the owner of the project while the RSC contractors assume the role of service provider. The RSC contractors are required to contribute the upfront capital for the development, and receive payment from the first production and throughout the duration of the contract.

**The OFSE Industry**

The OFSE industry comprise of market players engaged by PSC contractors which award projects to OFSE players such as fabricators for facilities development, ranging from fabrication of new facilities to conversion or refurbishment of existing facilities. In addition, some OFSE fabricators that are awarded with RSC may also assume this role. These fabricators are companies with strong technical background that are capable of carrying out large-scale integrated projects.

It is also common for local fabricators to team up or partner with foreign players to supplement their operations. This helps the local fabricators to boost their technical profile and keep them abreast of the latest technological development in the industry. Examples of local fabricators include SapuraKencana Petroleum Berhad ("SapuraKencana"), Malaysia Marine and Heavy Engineering Holdings Bhd ("MMHE") and TH Heavy Engineering Bhd ("TH Heavy Engineering"). Fabricators are likely to assume the lead role in the projects and delegate different packages of works to sub-contractors.

The sub-contractors in the OFSE industry consist of players that provide various services and services to supplement the completion of an E&P project. This includes OFSE players that supply individual equipment and spare parts to the fabricators. These sub-contractors deal mainly with the fabricators via service tenders by the fabricators or equipment procurement for the fabricators, although the sub-contractors also hold the opportunity to supply directly to the PSC. Leveraging on their knowledge on equipment and spare parts, some sub-contractors are also involved in the provision of maintenance services. For example, OGPC Group is involved in the OFSE industry with the provision of equipment and spare parts of foreign brands to the fabricators, in addition to the provision of equipment maintenance services.

## 3.3 MARKET DYNAMICS SCORECARD

Due to the diverse variety and nature of OFSE available in the market, along with the multitude of requirements and market participants serving the OFSE industry, the market size of the OFSE industry is not readily available. The OFSE industry is driven as a result of the demand created from the oil and gas industry and is used as a direct assessment of the market performance of the OFSE industry. The market dynamics for the OFSE industry in tandem with the oil and gas industry in Malaysia are shown in Figure 33 below.

**Figure 33: Market Dynamics Scorecard for the Oil and Gas and OFSE Industries in Malaysia**

| Market Dynamics Indicators | Measurement | Trends |
|---|---|---|
| 2014 Oil and Gas Industry Size* (RM billion) | 111.62 | - |
| 2019 Forecast Oil and Gas Industry Size* (RM billion) | 120.18 | - |
| Forecast Period Market Compound Annual Growth Rate ("CAGR") * (2014 – 2019) (%) | 1.5 | - |
| 2015-2019 Demand Conditions of OFSE Industry | Favourable and underpinned by continuous investment in the upstream sector of the oil and gas industry, increasing push towards unconventional E&P activities and revitalisation of mature fields, and the persistence of fossil fuels as the main energy source | Stable |
| 2015-2019 Supply Conditions of OFSE Industry | Favourable with continuous support from the Malaysian | Stable |

| Market Dynamics Indicators | Measurement | Trends |
|---|---|---|
| | government | |

*Note:*

** The oil and gas industry creates demand for OFSE and hence acts as a proxy to illustrate the growth of the OFSE industry.*

*Source: Extracted from the IMR report*

## 3.4 HISTORICAL INDUSTRY PERFORMANCE AND GROWTH FORECAST

Due to the variety and diverse nature of OFSE available in the market, along with the multitude of requirements and market participants serving the OFSE industry, the market size of the OFSE industry is not readily available. As such, the oil and gas industry is used instead to offer an assessment of the market performance of the OFSE industry. The oil and gas industry is a major consumer and customer of the OFSE industry, and it is highly representative of the market dynamics surrounding the growth and demand for OFSE.

Protégé Associates has provided the historical performance and growth forecast of the oil and gas industry in Malaysia based on the primary and secondary research as well as analytical works conducted. The main secondary researches were with the Department of Statistics Malaysia, the ETP handbook and its annual reports, OPEC and International Monetary Fund to ascertain the market size and project its growth. Then, Protégé Associates conducted primary research with the market players in the local oil and gas industry to further obtain their opinions regarding the market size and the projected growth. Annual reports of listed companies were also obtained to supplement our findings.

In 2013, the oil and gas industry was valued at RM118.30 billion, a 1.9 percent decline from the RM120.60 billion achieved in 2012. This was mainly attributed to a decrease in crude oil production from 585.6 thousand barrels per day in 2012, to 570.3 thousand barrels per day in 2013, coupled with lower prices which fell from an average of USD117.62 per barrel in 2012 to USD114.95 per barrel in 2013.

In the same year, the petrochemical industry was affected as Polypropylene Malaysia Sdn Bhd, a subsidiary of PETRONAS, suspended the use of its 80,000 tonnes per year polypropylene ("PP") plant in Kuantan at the end of 2012; followed by a capacity reduction of Lotte Chemical Titan (M) Sdn Bhd from 480 kilo tonnes per annum ("kta") to 400 kta in 2013.

The cessation of PETRONAS from its vinyl chloride monomer and polyvinyl chloride ("PVC") business in 2013 also negatively impacted the oil and gas industry as a whole.

In 2014, the oil and gas industry has seen an increase in terms of production to 1,658,000 boe per day from 1,621,000 boe per day in 2013, attributing to the start-up of Tapis Enhanced Oil Recovery ("EOR") project, Malaysia's first large-scale EOR project, the start-up of oil production from a deepwater development namely the Gumusut-Kakap floating platform, and the start-up of natural gas production from Damar field. While the start-up of new production platform increases the crude oil supply from Malaysia, growth in 2014 is restrained by the slumping crude oil prices which begun around second half of 2014. In 2014, price of Dated Brent stood at an average of USD99 per barrel – representing a 9.2 percent year-on-year contraction from USD109 per barrel recorded in 2013. On the global front, increasing crude oil production from the US coupled with underperforming demand from Europe and Japan have resulted in crude oil oversupply and accordingly, weighing on the pricing. As a result, the oil and gas industry in Malaysia recorded a 5.6 percent contraction in 2014. Figure 34 below depicts the market size and growth forecast for the oil and gas industry in Malaysia from 2012 to 2019.

**Figure 34: Market Size and Growth Forecast for the Oil and Gas Industry in Malaysia, 2012 – 2019**

| Year | Market Size (RM billion) | Growth Rate (%) |
|---|---|---|
| 2012 | 120.60 | - |
| 2013 | 118.30 | -1.9 |
| 2014 | 111.62 | -5.6 |
| 2015 | 92.05 | -17.5 |
| 2016 | 103.37 | 12.3 |
| 2017 | 107.78 | 4.3 |
| 2018 | 112.88 | 4.7 |
| 2019 | 120.18 | 6.5 |

*CAGR (2014– 2019): 1.5 percent*
*Note:*
*All figures are rounded; the base year is 2014.*

*Source: Extracted from the IMR report*

For the first half of 2015, crude oil price remained on the low side (as compared to over USD100 per barrel in previous years), with monthly average prices fluctuating between USD47.5 to USD62.5 per barrel. Cheaper oil should impact expenditure on production and limit the growth in supply. Accordingly, US onshore drilling activity in parts of both emerging and mature oil production regions declined by 288 rigs to 1,263 rigs in January 2015, from its climax of 1,551 rigs recorded in early October 2014. The decline in production output has resulted in slight rebound in crude oil price to USD54.9 per barrel in February 2015. Oil prices have continued to fluctuate in the subsequent months. In March 2015, crude oil price slightly dropped to an average of USD52.8 per barrel due to crude oil stockpiles in US. However in April 2015, crude oil price increased to an average of USD57.4 per barrel, bolstered by lower stockpiles in US, disruption in Libyan crude oil exports due to protests and subsequently inflated selling prices by Saudi Arabia. In May and June, oil price stood at USD62.5 per barrel and USD61.3 per barrel respectively. And from July to September, monthly average of crude oil prices stood at USD54.4 per barrel, USD45.7 per barrel and USD46.3 per barrel respectively. Crude oil recorded average price of around USD47.0 per barrel and USD43.0 per barrel in October and November respectively. In December, crude oil price plunged to below USD40 per barrel amid concern about global oversupply of the said commodity subsequent to the decision by OPEC to maintain its current production levels.

In Malaysia, PETRONAS expects oil prices to remain significantly lower than 2014 with an average price of USD55 per barrel for 2015. Accordingly, PETRONAS has announced a cut in its operating expenditure by 24.0 percent. Therefore, demand for products and services from the OFSE industry could be affected in the short term (2015 to 2016). Nonetheless, the impact could be offset by an increase in PETRONAS capital expenditure for the overall oil and gas industry to RM70 billion in 2015 as compared to RM60 billion in 2014. Despite the current bearish scenario, PETRONAS expects the oil prices to recover in the medium-to-long term as market adjusts its parity for the mismatch in supply and demand.

On a positive note, demand for oil and gas is projected to be sustainable in the long run. OPEC has projected the oil demand to increase by over 18 million barrels per day during the period of 2015 to 2040, reaching 111.1 million barrels per day by 2040. In addition, the long term prospect of the oil and gas industry is supported by an increasing global population and urbanisation that would drive the energy demand. The United Nations ("UN") has projected the global population to grow from 7.2 billion in 2014 to reach 9.6 billion by 2050, of which urban population would increase from 54.0 percent to 66.0 percent during the same period. Continuous demand for energy sources is anticipated to contribute to a sustainable oil and gas industry, and the OFSE industry may benefit from the need of equipment replacement within the oil and gas industry in long run.

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# 3.5 COMPETITIVE ANALYSIS

Market participants within the OFSE industry can be broadly grouped into 2 categories i.e. the fabricators and sub-contractors as follows:

**Fabricators**

Fabricators participate in the OFSE industry through the provision of E&P facilities development services to PSC contractors. The provision of E&P facilities development services range from fabrication of new E&P facilities to conversion or refurbishment of existing E&P facilities. These fabricators are companies with strong technical background and are capable of carrying out large-scale integrated projects. Fabricators are likely to assume the lead role in the projects and delegate different packages of works to sub-contractors. In addition, some OFSE fabricators that are awarded with RSC may also assume this role.

**Sub-Contractors**

The sub-contractors in the OFSE industry consist of players that provide various services and services to supplement the completion of an E&P project. This includes OFSE players that supply individual equipment and spare parts to the fabricators. These sub-contractors deal mainly with the fabricators via service tenders by the fabricators or equipment procurement for the fabricators, although the sub-contractors also hold the opportunity to supply directly to the PSC. Leveraging on their knowledge on equipment and spare parts, some sub-contractors are also involved in the provision of maintenance services.

OGPC Group, for example, is a market participant in the sub-contracting segment with the provision of equipment and spare parts of foreign brands to the fabricators, in addition to the provision of equipment maintenance services.

## 3.5.1 Key Market Players

The fluid, diverse and competitive nature of the OFSE industry has resulted in a wide differentiation and diversification in terms of products/services offerings and business models by market participants. As such, it is almost impossible to perform a direct or like-for-like comparison on OGPC Group against other market participants within the OFSE industry. Nevertheless, Protégé Associates has identified several key market players that are comparable to OGPC Group in the OFSE industry based on the following criteria:-

- **Registered a turnover of over RM80 million based on latest publicly available financial information;**
- **Involved in the provision of pumps or valves; and**
- **Caters to the oil and gas industry.**

The list of key market players is not exhaustive and each market player's product offerings may not exactly coincide with others'. Market players may involve in the provision of equipment on top of pumps and valves.

**<u>Alfa Laval Malaysia Sdn Bhd ("Alfa Laval Malaysia")</u>**

Alfa Laval Malaysia is incorporated in Malaysia as a trading and distribution subsidiary of Alfa Laval Corporate AB ("Alfa Laval"), a Swedish manufacturer of equipment used in heat transfer, separation and fluid control. Alfa Laval Malaysia markets and supplies a broad range of heat exchangers, separators, decanters, pumps, valves and fittings to customers in a wide range of market segment, including the energy and environment, food and pharmaceutical, as well as marine and diesel segment. In the energy and environment segment, Alfa Laval Malaysia's products are supplied to industries like oil and gas, crude oil refinery, power, wastewater treatment, etc.

For the financial year ended ("FYE") 31 December 2014, Alfa Laval Malaysia recorded RM169.4 million in revenue.

**<u>Emerson Process Management (Malaysia) Sdn Bhd ("Emerson Malaysia")</u>**

Emerson Malaysia is incorporated in Malaysia as a trading and distribution subsidiary of Emerson Electric Corporation ("Emerson"), a US based company involved manufacturing and supply of products for process management, industrial automation, network power, climate technologies and commercial and residential solutions businesses. Under the process management segment, Emerson offers a wide range of measurement and analytical equipment, valves, regulators and final control elements, as well as system, controllers and software to a wide range of industries, including the oil and gas industry. Whereas under the industrial automation segment, Emerson offers products for fluid automation, industrial electrical products, materials joining and precision cleaning, mechanical power transmission, motors and drivers, as well as electric power generation for oil and gas, automotive, food and beverages, metal packaging, wind and solar and other industries.

For the FYE 30 September 2014, Emerson Malaysia recorded RM221.4 million in revenue.

**Pantech Group Holdings Berhad ("Pantech")**

Pantech, currently listed on the Main Market of Bursa Malaysia Securities Berhad, is involved in the manufacturing/ trading of pipes, fittings, flanges, valves and other components that serve a wide range of industries, including but not limited to oil and gas, marine and shipbuilding, palm oil, power plants, etc. Pantech is involved in the trading and supply of valves through its subsidiary, Pantech Corporation Sdn Bhd.

For the FYE 28 February 2015, Pantech recorded RM525.7 million in revenue, of which RM298.0 million was generated from its trading segment and RM227.8 million was contributed from its manufacturing segment.

**Tanjung Offshore Berhad ("Tanjung")**

Tanjung, currently listed on the Main Market of Bursa Malaysia Securities Berhad, is principally involved in the provision of engineering equipment, equipment maintenance services, drilling and production platform services to the oil and gas and related industries in Malaysia and the region. Tanjung is involved in the provision of pumps and valves through its subsidiary, Tanjung Offshore Services Sdn Bhd ("TOS"). TOS, a wholly owned PETRONAS-licensed subsidiary of Tanjung, offers services such as customised engineered equipment packages, drilling and platform services, project management of contracts, spares and parts for equipment and other related services. On top of that, TOS is also an exclusive agent in Malaysia for various Original Equipment Manufacturers ("OEM") such as pumps, control systems, switchgears, instrumentations and valves that are widely used in the upstream and downstream activities of the oil and gas industry.

For the FYE 31 December 2014, Tanjung recorded RM107.4 million in revenue, of which RM49.8 million was contributed from its products and services segment, RM24.2 million was generated from its maintenance services segment, and RM33.5 million was contributed from its engineered packages segment.

**Unimech Group Berhad ("Unimech")**

Unimech, currently listed on the Main Market of Bursa Malaysia Securities Berhad, is principally involved in designing and manufacturing of industrial and residential valves, strainers, steel flanges, pipe fittings, rubber expansion bellows, vibration absorption sheets, roller, gaskets, as well as polyurethane casting and extrusion products. On top of that, Unimech is also involved in the importation and distribution of engineering equipment and components such as burners and broilers, heat exchanger tube cleaning equipment and descaling equipment, valves and gauges, etc. Other services provided by Unimech include overhaul of engineering equipment and parts replacement, consultancy on air pollution control, exhaust stock design, plant and process monitoring and recording systems. Unimech is involved in the trading of industrial valves for oil and gas industry in Malaysia through Unimech Valves Technology Sdn Bhd.

For the FYE 31 December 2014, Unimech recorded RM238.0 million in revenue, of which RM193.1 million was generated from its valves, instrumentation and fittings segment, RM23.9 million from its pumps segment.

### 3.5.2 Market Share Analysis

For FYE 31 December 2014, OGPC Group recorded total revenue of RM89.3 million. This is equivalent to less than 0.1 percent share of the larger oil and gas industry in Malaysia during the year. This is based on OGPC Group's revenue of RM89.3 million against the Malaysian oil and gas industry revenue of RM111.62 billion in 2014.

## 3.6 DEMAND AND SUPPLY CONDITIONS

### 3.6.1 Demand Conditions

**Continuous Investment in the Upstream Sector of the Oil and Gas Industry**

The Malaysian oil and gas industry continues to invest and develop its upstream sector, which brings derived demand for the service offerings of the OFSE industry. Investments and further development in the upstream sector include PETRONAS' activities, such as partnering with foreign contractors that possess the technologies and know-how to exploit deepwater and mature fields.

In terms of PETRONAS' expenditure in the upstream sector in particular for exploration, development and production activities, a total of RM52.32 billion was spent in 2014, up by approximately 44.5 percent compared to the previous year's expenditure of approximately RM36.22 billion. Out of the expenditure of RM52.32 billion, 54.0 percent or RM28.25 billion was invested in Malaysia.

Despite anticipation of continuous investment, the OFSE industry may see reduced demand from the oil and gas industry going forward as the industry shies away or defer from making new investments due to unfavourable oil prices. To date, crude oil price remained on the low side (as compared to over USD100 per barrel in previous years), with price slipped to below USD40.0 per barrel in December 2015. Already, PETRONAS has announced a cut in its operating expenditure by 24.0 percent in 2015. Therefore, demand for products and services from the OFSE industry could be affected in the short term (2015 to 2016). Nonetheless, the impact could be offset by an increase in PETRONAS capital expenditure for the overall oil and gas industry to RM70 billion in 2015 as compared to RM60 billion in 2014.

**Increasing Push towards Unconventional Exploration and Production Activities and Revitalising Mature Fields**

There has been a decreasing trend in oil reserves discovered in shallow water fields. Meanwhile, the maturity of domestic fields, after years of steady and continuous production has resulted in lower production. Hence, the trend is shifting towards the deep and ultra deepwater exploration and production, looking into the development of marginal fields as well as revitalise mature fields to increase the remaining output.

Marginal fields that typically hold less than 30 million barrels of reserve are also being look into as a potential source of development. Due to the small size of the reserve, major oil and gas players often pay little interest towards marginal fields. Therefore, PETRONAS implemented the RSC model for marginal field contracts to motivate and encourage smaller players to participate in the development of marginal fields. This is certainly an advantage for smaller players as a RSC is more flexible than the usual PSC mechanism.

Nonetheless, PETRONAS has announced a cut in its operating expenditure by 24.0 percent. Therefore, demand for products and services from the OFSE industry could be affected in the short term (2015 to 2016). Nonetheless, the impact could be offset by an increase in PETRONAS capital expenditure for the overall oil and gas industry to RM70 billion in 2015 as compared to RM60 billion in 2014.

**Fossil Fuels Persist as the Main Energy Source**

Within Malaysia, the demand for energy is growing at a pace correlated with the industrialisation and economic development of the country.

Despite the government's recent effort to diversify the country's energy sources and promote the use of renewable energy, fossil fuels remain the most important source of energy supply in Malaysia. In 2013, petroleum products alone accounted for 57.0 percent of total energy consumption while natural gas made up another 21.9 percent. Coal and coke formed another 3.0 percent of total energy consumption and electricity formed 20.5 percent. In terms of electricity generation, the sector again possesses relatively high reliance on fossil fuels. In 2013, gas was the main energy source for electricity generation, constituting about 50.5 percent of total electricity generation. Coal comes second with 38.1 percent of total electricity generation. Hydro contributed 8.3 percent whereas diesel and oil respectively contributed 1.1 percent each in 2013.

This shows that Malaysia relies heavily on fossil fuels especially that from the oil and gas industry, for energy supply.

**Depleting Oil and Gas Reserves**

There has been a general decreasing trend in oil reserves. From an energy rich country a decade ago, Malaysia is slowly and will soon join other countries that have to rely on imports to meet domestic consumption requirements. All major discoveries have already been developed and have been in production for more than 30 years. Therefore, after years of steady and continuous production, existing wells are now revealing lower production. A lower supply of oil and gas leads to reduced production activities that would result in a decreased demand for the OFSE industry.

However, the Malaysian government remained steadfast on its commitment to continue developing and growing the oil and gas industry. Under the ETP, the Malaysian government plans to rejuvenate existing fields through EOR, develop marginal fields through innovative solutions and intensify exploration activities. Therefore, impact from this factor is likely to remain low throughout the forecast period.

### 3.6.2 Supply Conditions

**Continuous Support from the Malaysian Government**

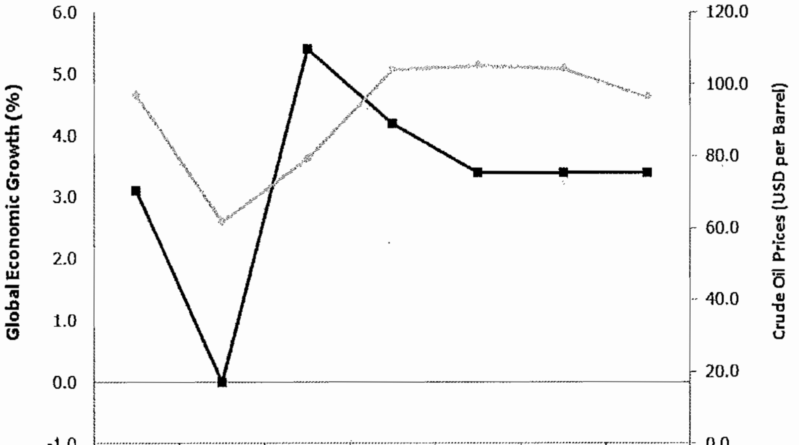
The Malaysian Government has been very supportive of the oil and gas industry as it is one of the most important growth contributors to Malaysian economy. For that reason, the oil, gas and energy industry has been identified as one of the NKEA under the ETP and it is forecasted to bring in an additional of RM131.4 billion of Gross National Income ("GNI") by 2020. The Malaysian OFSE industry is set to grow as the Malaysian government aims to position Malaysia as an OFSE hub for Asia Pacific as outlined under the oil, gas and energy NKEA of the ETP.

## 3.7 MARKET CHALLENGES

**Fluctuations in Crude Oil Prices**

Investment trends of oil producing companies do not follow a regular pattern. Historically, the oil and gas industry has seen increased investment for oil exploration and production activities when oil prices have been high. Investments are high when oil prices are high. When oil prices dipped, the industry has typically shied away from new investments. A combination of external factors such as geopolitical instability, economic cycle, catastrophic risk and global demand and supply of crude oil may lead to price volatility. This has caused the oil and gas industry to behave in a cyclical fashion. Hence, the OFSE industry may experience lower demand when oil prices are low while it may experience the reverse when the price of oil is high. Figure 35 shows the crude oil prices and global economic growth from 2008 to 2014 and Figure 36 below shows the crude oil production and prices from 2008 to 2014.

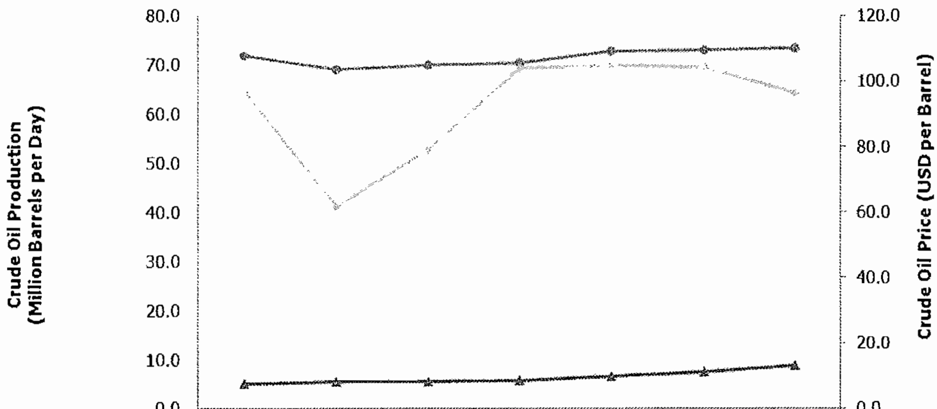
## Figure 35: Crude Oil Prices and Global Economic Growth, 2008-2014




| | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 |
|---|---|---|---|---|---|---|---|
| Global Economic Growth (%) | 3.1 | (0.01) | 5.4 | 4.2 | 3.4 | 3.4 | 3.4 |
| Crude Oil Prices (USD per Barrel) | 97.0 | 61.8 | 79.0 | 104.0 | 105.0 | 104.1 | 96.2 |

*Source: Extracted from the IMR report*

## Figure 36: Crude Oil Production and Prices, 2008-2014




| | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 |
|---|---|---|---|---|---|---|---|
| World Crude Oil Production (Million Barrels per Day) | 71.8 | 69.0 | 69.9 | 70.4 | 72.8 | 72.9 | 73.4 |
| US Crude Oil Production (Million Barrels per Day) | 5.0 | 5.4 | 5.5 | 5.6 | 6.5 | 7.5 | 8.7 |
| Crude Oil Price (USD per Barrel) | 97.0 | 61.8 | 79.0 | 104.0 | 105.0 | 104.1 | 96.2 |

*Source: Extracted from the IMR report*

In 2008, crude oil price stood at USD97.0 per barrel alongside a favourable 3.1 percent growth in global economy. Crude oil price dipped to an average of USD61.8 per barrel in 2009, induced by the global economy recession that adversely affected the demand for energy products such as crude oil. Nevertheless, crude oil price rebounded in the following year in tandem with a better economic condition. In 2010, global economy improved by 5.4

percent while average crude oil price recovered to USD79.0 per barrel during the same period.

Prices of crude oil generally hovered above USD100 per barrel from 2011 to 2013 alongside a stable global economic growth. In 2014, crude oil prices dropped to an average of USD96.2 per barrel. In terms of monthly price movements for 2014, crude oil prices increased from an average of USD102.3 per barrel in January to USD108.4 per barrel in June before slumping from an average of USD105.2 per barrel in July to an average of USD60.6 per barrel in December.

The declining price trend can be attributed to the increasing shale oil output from the US which contributed to the increased global output along with weakening demand globally.

For the period of 2010 to 2013, the US was the third largest crude oil producer, commanding 7.8 percent and 8.0 percent of the world crude oil production in 2010 and 2011 respectively. In 2012, the US registered an encouraging 15.1 percent in its production growth, and accordingly expanded its production share to 8.9 percent in the said year. In 2013, the US continued to achieve double-digit growth in its production, thus increasing its production share in world crude oil production to 10.2 percent. The expansion in US crude oil production was attributed to the development of new technology which allows the drilling of hydrocarbons deep beneath the Earth's surface and accordingly increased its shale oil production.

The expansion in crude oil production from 2010 to 2013 was supported by rising global oil demand. Oil demand was mainly stem from US, Western Europe, China, OPEC and Japan. On another note, Japan's oil demand expanded by 5.9 percent in 2012 subsequent to the loss of its nuclear capacity in Fukushima disaster which increased its dependency on fossil fuel thereafter. (In 2011, a 9.0 magnitude earthquake struck off the coast of Sendai, Japan, triggering a tsunami which damaged its nuclear reactor)

Moving into 2014, global crude oil production grew to 73.4 million barrels per day in line with the expansion in US production. In 2014, crude oil production from the US increased to 8.7 million barrels per day. While the production expansion from the US has raised the global crude oil inventories, demand has underperformed with weakening demand from Europe and Japan. These have resulted in oversupply within the oil and gas industry and accordingly, weighing on the commodity pricing.

For the first half of 2015, crude oil price remained on the low side (as compared to over USD100 per barrel in previous years), with monthly average prices fluctuating between USD47.5 to USD62.5 per barrel. Cheaper oil should impact expenditure on production and limit the growth in supply. Accordingly, US onshore drilling activity in parts of both emerging and mature oil production regions declined by 288 rigs to 1,263 rigs in January 2015, from its climax of 1,551 rigs recorded in early October 2014. The decline in production output has resulted in slight recovery in crude oil price to USD54.9 per barrel in February 2015. Oil prices continued to fluctuate in the subsequent months. In March 2015, crude oil price slightly dropped to an average of USD52.8 per barrel due to crude oil stockpiles in the US. However in April 2015, crude oil price increased to an average of USD57.4 per barrel, bolstered by lower stockpiles in US, disruption in Libyan crude oil exports due to protests and subsequently inflated selling prices by Saudi Arabia. In May and June, oil price stood at USD62.5 per barrel and USD61.3 per barrel respectively. And from July to September, monthly average of crude oil prices stood at USD54.4 per barrel, USD45.7 per barrel and USD46.3 per barrel respectively. Crude oil recorded average price of around USD47.0 per barrel and USD43.0 per barrel in October and November respectively. In December, crude oil price plunged to below USD40 per barrel amid concern about global oversupply of the said commodity subsequent to the decision by OPEC to maintain its current production levels.

In Malaysia, PETRONAS expects oil prices to remain significantly lower than 2014 with an average price of USD55 per barrel for 2015. Accordingly, PETRONAS has announced a cut in its operating expenditure by 24.0 percent in 2015. Therefore, demand for products and services from the OFSE industry could be affected in the short term (2015 to 2016). Nonetheless, the impact could be offset by an increase in PETRONAS capital expenditure for the overall oil and gas industry to RM70 billion in 2015 as compared to RM60 billion in 2014.

Meanwhile, the situation surrounding oil prices remains volatile and its outlook remains uncertain in relation to unstable demand and supply conditions. A combination of external factors that will impact the demand and supply conditions, amongst other, are geopolitical and economic instability, inventory builds, production levels and catastrophic risk.

There exists potential for further fluctuation in coming weeks and months as demand and supply drivers remain unstable. At the macro level, the current bearish scenario is largely attributed to the financial concerns surrounding Greece and the economic slowdown in China that are expected to soften their demand for energy products. Despite the improved demand in the European and Asian markets, a weaker demand from Japan is also anticipated moving forward as the country returns some nuclear power plants to service and accordingly, may reduce its dependency on imported energy sources. With oil priced in US Dollar, an appreciation of US Dollar subsequent to the increase of US interest rate in December 2015 is set to negatively affect the purchasing power of oil importing countries, thus pressuring oil demand.

Meanwhile, the supply situation shows no sign of supply tightening in the near term thereby applying pressure to price recovery. In addition to the rise in shale oil in the US, OPEC countries continued with a consistent production level thus far, and the potential return of an Iranian supply of crude into the international oil and gas market would further increase the global oil supply, adding pressure to oil price recovery. The oil market may also anticipate an increase in supply subsequent to the lift of export ban by the US.

Correspondingly, a combination of unstable supply and demand conditions may prevent any significant rally from gaining traction and lead to persistently weak prices in the coming year. Despite the current bearish condition, PETRONAS expects the oil prices to recover in the medium-to-long term as market adjusts its parity for the mismatch in supply and demand. Prices could also rebound and move higher if any of the factors previously noted begin to reverse or if there is a major geopolitical event that could alter the prevailing dynamics seen for the market.

On a positive note, demand for oil and gas is projected to be sustainable in long run. OPEC has projected the oil demand to increase by over 18 million barrels per day during the period of 2015 to 2040, reaching 111.1 million barrels per day by 2040. This indicates the underlying demand for oil and gas as an energy source in the global market. In addition, the long term prospect of oil and gas industry is supported by an increasing global population and urbanisation that indicate an expansion in energy demand. The UN has projected the global population to grow from 7.2 billion in 2014 to reach 9.6 billion by 2050, of which urban population would increase from 54.0 percent to 66.0 percent during the same period. Continuous demand for energy sources would contribute to a sustainable oil and gas industry, and the OFSE industry may benefit from the need of equipment replacement within the oil and gas industry in long run.

## 3.8 MARKET RELIANCE ON AND VULNERABILITY TO IMPORTS

The OFSE industry is fairly reliant on imported technologically advanced and sophisticated services and equipment. Local players tend to depend on their foreign counterparts to provide certain forms of technology or engineering advice, as well as sourcing equipment and parts from them. This happens as the equipment and expertise used in the oil and gas industry is sophisticated. Therefore, local OFSE players have to import certain equipment, parts and systems that are not commonly found in Malaysia.

## 3.9 SUBSTITUTE PRODUCTS/SERVICES

There is no substitution for the OFSE industry. The market plays a supporting role to the oil and gas industry, and market players function as suppliers for all services and equipment pertaining to E&P activities of hydrocarbon.

## 3.10 BARRIERS TO ENTRY

**Government Policies** - The oil and gas industry in the country is regulated by PETRONAS. All participants who intend to supply goods and services to oil and gas industry in Malaysia are required to obtain a license from PETRONAS or be registered with PETRONAS.

**Product and Technical Knowledge** - Product and technical knowledge is important in the OFSE industry as the requirement varies for onshore and offshore projects. Having extensive product and technical knowledge allows a market participant to understand the customers' requirements for respective project thus specifying and supplying the right products accordingly. This product and technical knowledge typically comes along with industrial experience. Leveraging on the product and technical knowledge, market players may also offer value-added engineering solutions that suit the specific need of their customers, thus enhancing their overall attractiveness to prospective customers. Therefore, potential entrants may find it difficult to compete against established market players.

**Reputation and Track Record** - Due to the high standard the industry is subjected to, and the complexity of the services needed, parties within the industry tend to engage with reputable players and those they have experience dealing with.

# 3.11 RELEVANT LAWS AND REGULATIONS GOVERNING THE MARKET AND PECULIARITIES OF THE MARKET

## 3.11.1 Relevant Laws and Regulations

**Petroleum Development Act 1974**

Exploration and production of oil and gas resources in Malaysia comes under the purview of PETRONAS, a wholly owned government company that was formed under the Petroleum Development Act 1974. Under the act, PETRONAS was vested all the oil and gas resources in the country and granted it the sole exclusive right to explore, develop and produce hydrocarbon resources in Malaysia. This makes PETRONAS the custodian of Malaysia's oil and gas resources and entrusted it with the responsibility to develop and add value to the nation's hydrocarbon resources.

**Environmental Quality Act, 1974**

The Environmental Quality Act 1974 is the main environmental legislation in Malaysia. Under this act, oil and gas activities that are listed under the Environmental Quality (Prescribed Activities) (Environmental Impact Assessment) Order 1987 are required to perform Environmental Impact Assessment ("EIA") early in the project cycle to incorporate environmental considerations at the initial stage of project planning. It is a compulsory self-assessment exercise under the law and is considered as a preventive and precautionary mechanism against potential environmental degradation.

**Petroleum (Safety Measures) Act 1984 (Petroleum Safety Regulation)**

The Petroleum (Safety Measures) Act 1984 controls the safety of petroleum from the aspects of storage, handling, transportation and utilization of equipment/appliances. This act is being enforced by the Petroleum Safety Unit, which comes under the purview of the Domestic Trade Division of Ministry of Domestic Trade, Co-operatives and Consumerism. This Petroleum Safety Unit is responsible in assuring and overseeing the safety of the petroleum industry. It does so by preparing and updating the principle, enactment and regulations especially for Petroleum (Safety Measures) Act 1984.

## 3.11.2 Government Incentive

**Petroleum Income Tax Act**

In order to encourage the production of the remaining resources, the government amended the Petroleum Income Tax Act ("PITA") to bolster domestic exploration activities and encourage the development of technical resources through the provision of incentives for oil field developers to undertake investment projects that were once thought to be commercially unviable. These incentives were provided to boost new oil and gas resources development as well as to improve the commercial viability of the remaining resources.

The 5 new incentives introduced under PITA are:

- Deduction of up to 60.0 to 100.0 percent of capital expenditure against statutory income under investment tax allowance - to encourage the development of capital intensive projects in the area of enhanced oil recovery, high carbon dioxide gas fields, high pressure high temperature, deepwater and infrastructure projects for petroleum operations
- Marginal oil field developments are taxed 25.0 percent instead of current 38.0 percent
- Qualifying exploration expenditure transfer between non-contiguous petroleum agreements with the same partnerships or sole proprietor to enhance contractors' risk-taking attitude
- Export duty waiver for oil produced and exported from marginal field
- Accelerated capital allowance to 5 years from 10 years

## 3.11.3 Government Policies

**Economic Transformation Program ("ETP")**

The oil, gas and energy ("OGE") sector has been identified as one of the NKEA under the ETP. The OGE sector plays a prominent role in the Malaysian economy, contributing one-fifth of the national GDP over the past decade. This NKEA aims to attract higher foreign investments into Malaysia, to develop human capital in the OGE field, to encourage greater technology transfer and to turn Malaysia into a regional base to serve the Asia Pacific region. Under the OGE NKEA, there are 13 EPPs that aims to attract significant new investment, generate new jobs and contribute to economic growth for the long term. The government aims to turn Malaysia into the number 1 oil and gas hub in the Asia Pacific region by 2017 with the implementation of these EPPs. Collectively, the EPPs for this NKEA are projected to generate GNI of RM131.4 billion and create 52,300 new jobs by 2020.

**Eleventh Malaysian Plan ("11MP")**

The 11MP covers the period of 2016 to 2020 and is the final leg towards realising Vision 2020 that envisions Malaysia as a fully developed country along all dimensions – economically, politically, socially, spiritually, psychologically, and culturally by 2020. This plan identifies a number of strategic thrusts that has the potential to significantly boost economic growth, including strengthening infrastructure to support economic expansion.

## 3.12 MARKET OUTLOOK AND PROSPECT

The outlook of the OFSE industry in tandem with the oil and gas industry remains positive in long term. In 2014, the oil and gas industry has seen the start-up of Tapis EOR project, Malaysia's first large-scale EOR project, the start-up of oil production from a deepwater development namely the Gumusut-Kakap floating platform, and the start-up of natural gas production from Damar field. Nonetheless, growth is restrained by the slumping crude oil prices which begun around second half of 2014. On the global front, increasing crude oil production from the US coupled with underperforming demand from Europe and Japan have resulted in crude oil oversupply and accordingly, weighing on the pricing.

In Malaysia, PETRONAS expects oil prices to remain significantly lower than 2014 with an average price of USD55 per barrel for 2015. Accordingly, PETRONAS has announced a cut in its operating expenditure by 24.0 percent. Therefore, demand for products and services from the OFSE industry could be affected in the short term (2015 to 2016). Nonetheless, the impact could be offset by an increase in PETRONAS capital expenditure for the overall oil and gas industry to RM70 billion in 2015 as compared to RM60 billion in 2014. Despite the current bearish scenario, PETRONAS expects the oil prices to recover in the medium-to-long term as market adjusts its parity for the mismatch in supply and demand.

Moving forward the oil and gas industry is projected to register a CAGR of 1.5 percent from 2014 to 2019. Amid a cut on PETRONAS' operating expenditure, the continuous investment in the oil and gas industry particularly from the EPPs under the ETP is expected to provide the impetus for the sustainable growth in the industry.

Growth within the OFSE industry is anticipated to be sustainable throughout the forecast period. Factors priming growth in the OFSE are likely to come from the continuous investment in the upstream sector of the oil and gas industry, increasing push towards unconventional exploration and production activities and revitalising mature fields, and fossil fuels persisting as the main energy source.

On the supply side, the oil, gas and energy industry has been identified as one of the NKEA under the ETP and it is forecasted to bring in an additional of RM131.4 billion of GNI by 2020. The Malaysian OFSE industry is set to grow as the Malaysian government aims to position Malaysia as an OFSE hub for Asia Pacific as outlined under the oil, gas and energy NKEA of the ETP.

# 4 OVERVIEW OF THE PETROCHEMICAL INDUSTRY IN MALAYSIA

Petrochemicals refer to chemicals derived from hydrocarbons that are produced from petroleum refining activities. Petroleum refining revolves around the conversion of crude oil into useable products through a series of processes.

There are 6 operating refineries in Malaysia with a total refining capacity of over 500,000 barrels per day. 3 of the refineries, namely PETRONAS Penapisan (Melaka) Sdn Bhd, Malaysian Refining Company Sdn Bhd and PETRONAS Penapisan (Terengganu) Sdn Bhd, are PETRONAS-owned while remaining 3 refineries are operated by foreign operators. To date, Petron Malaysia Refining and Marketing Bhd plans to spend close to USD1 billion in the next few years to upgrade its refinery, and expand its station retail network. However, Shell Refining Company (FOM) Bhd is mulling a change in business direction and possible asset sale subsequent to depressed refining margins.

Major finished products of crude oil refining include fuels, petrochemical feedstock, solvents, process oils, lubricants and special products such as wax, asphalt and coke. Together with the availability of natural gas, growth in the petrochemical industry is stimulated by a stable supply of petrochemical feedstock.

Petrochemical feedstock produced in Malaysia consist of naphtha, methane and liquefied petroleum gas ("LPG"), ethylene, propylene, benzene, toluene and xylene. In addition to the refineries, feedstocks are also produced by petrochemical manufacturers such as Lotte Chemical Titan Holdings Sdn Bhd.

The production of feedstock in Malaysia provides a stable raw material supply to the participants of the petrochemical industry. To date, The Malaysian Petrochemicals Association, an industry association representing the petrochemical industry of Malaysia, has 25 members involved in the production and trading of petrochemicals and plastic resins. These include some world-renowned petrochemical companies such as BASF, Toray, Idemitsu, Dairen and Lotte.

To sustain the competitiveness of the Malaysian petrochemical industry, value integration through inter-plant synergies is promoted by the local government. The development of petrochemical zones where petrochemical plants are clustered together has created a value chain, which ensures the progressive development of downstream petrochemicals activities. To date, 3 major petrochemical zones have been established in Kertih, Terengganu; Gebang, Pahang; and Pasir Gudang/ Tanjung Langsat, Johor. Other petrochemical plants in Malaysia include the ammonia and urea plants in Bintulu, Sarawak and Gurun, Kedah; acrylonitrile butadiene styrene plant in Penang; methanol plant in Labuan and the nitrile-butadiene rubber plant in Kluang, Johor.

The production of petrochemicals in Malaysia provides a stable raw material supply at competitive cost to the plastic industry.

In 2013, total polyolefins production registered a fall with the PETRONAS subsidiary, Polypropylene Malaysia Sdn Bhd, suspending the use of its 80,000 tonnes per year PP plant in Kuantan at the end of 2012; followed by a capacity reduction of Lotte Chemical Titan (M) Sdn Bhd from 480 kta to 400 kta in 2013. Also, supply of PVC resins declined in 2013 with PETRONAS ceasing vinyl choride monomer and PVC business in the year. As a result, Malaysia was turned into a net polyolefins importer in 2013.

The domestic demand for polyolefin grew from 1,398 kilo metric tonne ("kmt") in 2012 to 1,457 kmt in 2013. In 2014, demand for polyolefin is projected to reach 1,548 kmt on the back of favourable economic performance. Also in 2014, there is no capacity expansion within the petrochemical industry and hence, Malaysia remains as a net polyolefin importer.

In terms of pricing, prices of petrochemicals improved to an average of USD1,419 per metric tonne in the third quarter of 2014 before falling to an average of USD1,360 per metric tonne in the fourth quarter as the prices of petrochemicals reacted to the falling feedstock prices. The downward trend persisted in the first quarter of 2015, thus resulting in significant reduction in petrochemicals price to an average of USD892 per metric tonne during the said period. Petrochemical prices reacted to improved crude oil and naphtha prices in the second quarter of 2015 and its average prices rebounded to USD1,083 per metric tonne during the said period. And in third quarter of 2015, petrochemical prices dropped to USD896 per metric tonne in relation to soften crude oil prices in August and September.

Moving forward, a higher demand for plastic products is anticipated to continue to spur the demand for petrochemicals in Malaysia. The petrochemical industry is also likely to see higher demand from foreign markets with the presence of free trade agreements coming into play – such as the ASEAN Free Trade Agreement ("AFTA") and Malaysia's Free Trade Agreement ("FTA") with China.

In terms of supply, the petrochemical industry is likely to see an increase in production capacity in the long term under various government-led initiatives, including the RAPID project in Johor. Located within the Pengerang Integrated Petroleum Complex ("PIPC") in Johor, the RAPID project will house a 300,000 barrels per day capacity of crude oil refinery, a naphtha cracker that with a combined capacity of 3 million tonnes of olefins, and development of 22 downstream plants.

# 5 OVERVIEW OF THE ENERGY SECTOR IN MALAYSIA

Malaysia has tremendous reserves for both non-renewable and renewable sources of energy. The largest non-renewable energy source found in Malaysia is fossil fuel (coal and coke, as well as oil and gas), which is actively exploited. Fossil fuels were the main energy sources in Malaysia from 2008 to 2013, and this trend is expected to continue into the long term. Collectively, fossil fuels like petroleum products, natural gas, coal and coke supply over 70.0 percent of the total energy consumed in Malaysia.

In 2009, energy consumption was lower as growth in the Malaysian economy contracted by 1.7 percent. However, total energy consumption moved on upward trajectory from 2010 to 2012 as Malaysian economy grew.

In terms of electricity generation, the sector again possesses relatively high reliance on fossil fuels. In 2013, natural gas was the main energy source for electricity generation, constituting about 50.5 percent of total electricity generation. Coal comes second with 38.1 percent of total electricity generation. Hydro contributed 8.3 percent whereas diesel and oil contributed respectively 1.1 percent each in 2013.

The energy sources in Malaysia were mainly consumed in the transportation sector. In 2013, 50.5 percent of the energy usage in Malaysia was attributable to the transportation sector. The industry sector was the second largest in terms of energy consumption with 30.5 percent share in 2013. The residential and commercial sector as well as the agriculture sector made up the remaining 16.7 percent and 2.3 percent of total energy consumption respectively.

The economic development in Malaysia stimulates a higher demand for energy. As the Malaysian economy is forecast to remain on a positive trajectory, the energy sector is likely to capture a higher demand moving forward. Thus, the government aims to lift domestic oil and gas production through a number of EPPs as outlined under OGE NKEA of the ETP. The relevant initiatives include the rejuvenation of existing field through EOR, developing marginal fields through innovative solutions, intensifying exploration activities, and unlocking premium gas demand.

Protégé
ASSOCIATES
BRAND | FINANCE | MARKET

Protégé Associates has prepared this report in an independent and objective manner and has taken adequate care to ensure the accuracy and completeness of the report. We believe that this report presents a true and fair view of the industry within the boundaries and limitations of secondary statistics, primary research and continued industry movements. Our research has been conducted to present a view of the overall industry and may not necessarily reflect the performance of individual companies in this industry. We are not responsible for the decisions and/ or actions of the readers of this report. This report should also not be considered as a recommendation to buy or not to buy the shares of any company or companies.

Thank you.

Yours Sincerely,

TAN CHIN HOW

Director

Protégé Associates Sdn Bhd

Crowe Horwath™

**Crowe Horwath** AF 1018
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info@crowehorwath.com.my

Date: 11 JAN 2016

The Board of Directors
**DAGANG NeXCHANGE BERHAD ("DNeX")**
Tower 3, Avenue 5, The Horizon,
Bangsar South, No. 8, Jalan Kerinchi,
59200 Kuala Lumpur.

Dear Sirs

## ACCOUNTANTS' REPORT
## OGPC SDN. BHD.

### REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

We have audited the accompanying consolidated financial statements of OGPC Sdn. Bhd. ("OGPC") (the "Company") and its subsidiary (collectively known as the "Group" or the "OGPC Group"). The consolidated financial statements comprise the consolidated statements of financial position as at 31 December 2012, 2013 and 2014 and the consolidated statements of profit or loss and other comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows of the Group for each of the financial years ended 31 December 2012, 2013 and 2014 (the "Relevant Periods"), and notes to the consolidated financial statements, including a summary of significant accounting policies, as set out on pages 3 to 56.

### RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The Directors of OGPC are responsible for the preparation of the consolidated financial statements so as to give a true and fair view in accordance with the Malaysian Financial Reporting Standards, International Financial Reporting Standards and Prospectus Guidelines - Equity issued by the Securities Commission Malaysia. The Directors are also responsible for such internal accounting control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### REPORTING ACCOUNTANTS' RESPONSIBILITY

Our responsibility is to express an opinion on the consolidated financial statements based on our audits. We conducted our audits in accordance with the approved standards on auditing in Malaysia. Those standards require that we comply with ethical requirements and plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Crowe Horwath™

**ACCOUNTANTS' REPORT**
**OGPC SDN. BHD. (CONT'D)**
(Incorporated in Malaysia)
Company No: 300347-H

**OPINION**

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as at 31 December 2012, 2013 and 2014 and of its financial performance and cash flows for the financial years then ended in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and Prospectus Guidelines - Equity issued by the Securities Commission Malaysia.

**OTHER MATTER**

The significant event subsequent to the end of the financial year ended 31 December 2014 has been disclosed in Note 21 to this report.

**RESTRICTION ON DISTRIBUTION AND USE**

This report is made solely to you as a body and for the inclusion in the Circular to Shareholders of Dagang NeXchange Berhad in relation to the proposed acquisitions of the Group. As such, this report should not be used for any other purpose without our prior written consent. Neither the firm nor any member or employee of the firm undertakes responsibility arising in any way whatsoever to any party in respect of this letter contrary to the aforesaid purpose.

**Crowe Horwath**
Firm No: AF 1018
Chartered Accountants
Kuala Lumpur

**Chan Kuan Chee**
Approval No: 2271/10/17(J)
Chartered Accountant

## OGPC SDN. BHD.

## CONSOLIDATED STATEMENTS OF FINANCIAL POSITION AS AT 31 DECEMBER 2012, 2013 AND 2014

| | | | THE GROUP | |
|---|---|---|---|---|
| | NOTE | 2012 RM'000 | 2013 RM'000 | 2014 RM'000 |
| **ASSETS** | | | | |
| NON-CURRENT ASSETS | | | | |
| Property, plant and equipment | 4 | 8,038 | 8,237 | 7,703 |
| | | 8,038 | 8,237 | 7,703 |
| CURRENT ASSETS | | | | |
| Inventories | 5 | 3,222 | 5,678 | 5,455 |
| Trade receivables | 6 | 27,298 | 32,497 | 29,392 |
| Other receivables, deposits and prepayments | 7 | 147 | 128 | 1,160 |
| Tax recoverable | | 35 | 163 | 179 |
| Fixed deposits with licensed banks | 8 | 9,030 | 8,596 | 6,743 |
| Cash and bank balances | | 50,144 | 60,071 | 46,634 |
| | | 89,876 | 107,133 | 89,563 |
| TOTAL ASSETS | | 97,914 | 115,370 | 97,266 |
| **EQUITY AND LIABILITIES** | | | | |
| EQUITY | | | | |
| Share capital | 9 | 500 | 500 | 500 |
| Retained profits | 10 | 70,333 | 80,078 | 72,882 |
| EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY | | 70,833 | 80,578 | 73,382 |
| NON-CONTROLLING INTERESTS | | 2,449 | 2,983 | 2,627 |
| TOTAL EQUITY | | 73,282 | 83,561 | 76,009 |
| NON-CURRENT LIABILITY | | | | |
| Deferred tax liability | 11 | 30 | 30 | 30 |
| CURRENT LIABILITIES | | | | |
| Trade payables | 12 | 23,239 | 26,615 | 13,710 |
| Other payables, deposits and accruals | 13 | 987 | 3,276 | 4,752 |
| Provision for taxation | | 376 | 1,888 | 2,765 |
| | | 24,602 | 31,779 | 21,227 |
| TOTAL LIABILITIES | | 24,632 | 31,809 | 21,257 |
| TOTAL EQUITY AND LIABILITIES | | 97,914 | 115,370 | 97,266 |

## OGPC SDN. BHD.

## CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE FINANCIAL YEARS ENDED 31 DECEMBER 2012, 2013 AND 2014

| | NOTE | THE GROUP 2012 RM'000 | 2013 RM'000 | 2014 RM'000 |
|---|---|---|---|---|
| REVENUE | 14 | 114,565 | 137,066 | 89,306 |
| COST OF SALES | | (85,921) | (100,597) | (57,408) |
| GROSS PROFIT | | 28,644 | 36,469 | 31,898 |
| OTHER INCOME | | 2,294 | 3,816 | 2,472 |
| ADMINISTRATIVE EXPENSES | | (6,547) | (6,879) | (7,720) |
| OTHER EXPENSES | | (1,370) | (891) | (685) |
| PROFIT BEFORE TAXATION | 15 | 23,021 | 32,515 | 25,965 |
| INCOME TAX EXPENSE | 16 | (6,296) | (7,236) | (7,075) |
| PROFIT AFTER TAXATION | | 16,725 | 25,279 | 18,890 |
| OTHER COMPREHENSIVE INCOME | | - | - | - |
| TOTAL COMPREHENSIVE INCOME FOR THE FINANCIAL YEAR | | 16,725 | 25,279 | 18,890 |
| PROFIT AFTER TAXATION ATTRIBUTABLE TO:- | | | | |
| Owners of the Company | | 16,087 | 24,745 | 18,804 |
| Non-controlling interests | | 638 | 534 | 86 |
| | | 16,725 | 25,279 | 18,890 |
| TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:- | | | | |
| Owners of the Company | | 16,087 | 24,745 | 18,804 |
| Non-controlling interests | | 638 | 534 | 86 |
| | | 16,725 | 25,279 | 18,890 |

## OGPC SDN. BHD.

## CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
## FOR THE FINANCIAL YEARS ENDED 31 DECEMBER 2012, 2013 AND 2014

| THE GROUP | NOTE | NON-DISTRIBUTABLE SHARE CAPITAL RM'000 | DISTRIBUTABLE RETAINED PROFITS RM'000 | ATTRIBUTABLE TO OWNERS OF THE COMPANY RM'000 | NON-CONTROLLING INTERESTS RM'000 | TOTAL EQUITY RM'000 |
|---|---|---|---|---|---|---|
| Balance at 1.1.2012 | | 500 | 69,246 | 69,746 | 1,811 | 71,557 |
| Profit after taxation for the financial year/Total comprehensive income for the financial year | | - | 16,087 | 16,087 | 638 | 16,725 |
| Contributions by and distributions to owners of the Company: | | | | | | |
| Dividends: | | | | | | |
| - by the Company | 17 | - | (15,000) | (15,000) | - | (15,000) |
| Balance at 31.12.2012 | | 500 | 70,333 | 70,833 | 2,449 | 73,282 |

## OGPC SDN. BHD.

## CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (CONT'D)
## FOR THE FINANCIAL YEARS ENDED 31 DECEMBER 2012, 2013 AND 2014

| THE GROUP | NOTE | NON-DISTRIBUTABLE SHARE CAPITAL RM'000 | DISTRIBUTABLE RETAINED PROFITS RM'000 | ATTRIBUTABLE TO OWNERS OF THE COMPANY RM'000 | NON-CONTROLLING INTERESTS RM'000 | TOTAL EQUITY RM'000 |
|---|---|---|---|---|---|---|
| Balance at 31.12.2012/1.1.2013 | | 500 | 70,333 | 70,833 | 2,449 | 73,282 |
| Profit after taxation for the financial year/Total comprehensive income for the financial year | | - | 24,745 | 24,745 | 534 | 25,279 |
| Contributions by and distributions to owners of the Company: | | | | | | |
| Dividends: | | | | | | |
| - by the Company | 17 | - | (15,000) | (15,000) | - | (15,000) |
| Balance at 31.12.2013 | | 500 | 80,078 | 80,578 | 2,983 | 83,561 |

## OGPC SDN. BHD.

### CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (CONT'D)
### FOR THE FINANCIAL YEARS ENDED 31 DECEMBER 2012, 2013 AND 2014

| THE GROUP | NOTE | NON-DISTRIBUTABLE SHARE CAPITAL RM'000 | DISTRIBUTABLE RETAINED PROFITS RM'000 | ATTRIBUTABLE TO OWNERS OF THE COMPANY RM'000 | NON-CONTROLLING INTERESTS RM'000 | TOTAL EQUITY RM'000 |
|---|---|---|---|---|---|---|
| Balance at 31.12.2013/1.1.2014 | | 500 | 80,078 | 80,578 | 2,983 | 83,561 |
| Profit after taxation for the financial year/Total comprehensive income for the financial year | | - | 18,804 | 18,804 | 86 | 18,890 |
| Contributions by and distributions to owners of the Company: | | | | | | |
| Dividends: | | | | | | |
| - by the Company | 17 | - | (26,000) | (26,000) | - | (26,000) |
| - by a subsidiary to non-controlling interests | | - | - | - | (442) | (442) |
| Balance at 31.12.2014 | | 500 | 72,882 | 73,382 | 2,627 | 76,009 |

## OGPC SDN. BHD.

## CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE FINANCIAL YEARS ENDED 31 DECEMBER 2012, 2013 AND 2014

| THE GROUP | Note | 2012 RM'000 | 2013 RM'000 | 2014 RM'000 |
|---|---|---|---|---|
| CASH FLOWS (FOR)/FROM OPERATING ACTIVITIES | | | | |
| Profit before taxation | | 23,021 | 32,515 | 25,965 |
| Adjustments for:- | | | | |
| Depreciation of property, plant, and equipment | | 405 | 548 | 547 |
| Property, plant, and equipment written off | | 16 | - | 5 |
| Interest income | | (65) | (65) | (244) |
| Unrealised loss/(gain) on foreign exchange (net) | | 976 | (3,419) | (1,113) |
| Operating profit before working capital changes | | 24,353 | 29,579 | 25,160 |
| Decrease/(Increase) in inventories | | 1,687 | (2,456) | 223 |
| (Increase)/Decrease in trade and other receivables | | (9,132) | (5,180) | 2,073 |
| (Decrease)/Increase in trade and other payables | | (17,459) | 5,665 | (11,429) |
| CASH FLOWS (FOR)/FROM OPERATIONS | | (551) | 27,608 | 16,027 |
| Income tax paid | | (6,037) | (5,912) | (6,393) |
| Income tax refunded | | 1,034 | 60 | 179 |
| NET CASH (FOR)/FROM OPERATING ACTIVITIES | | (5,554) | 21,756 | 9,813 |
| CASH FLOWS (FOR)/FROM INVESTING ACTIVITIES | | | | |
| Interest received | | 65 | 65 | 244 |
| Purchase of property, plant and equipment | | (1,162) | (747) | (18) |
| NET CASH FOR INVESTING ACTIVITIES | | (1,097) | (682) | 226 |
| CASH FLOWS FOR/(FROM) FINANCING ACTIVITIES | | | | |
| Withdrawal/(Placement) of pledged deposits | | 2,193 | (1,984) | 4,570 |
| Dividend paid | 17 | (15,000) | (15,000) | (26,000) |
| Dividend paid to non-controlling interests | | - | - | (442) |
| NET CASH FOR FINANCING ACTIVITIES | | (12,807) | (16,984) | (21,872) |
| NET (DECREASE)/ INCREASE IN CASH AND CASH EQUIVALENTS | | (19,458) | 4,090 | (11,833) |
| FOREIGN EXCHANGE TRANSLATION | | (976) | 3,419 | 1,113 |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF THE FINANCIALYEAR | | 73,851 | 53,417 | 60,926 |
| CASH AND CASH EQUIVALENTS AT END OF THE FINANCIAL YEAR | 18 | 53,417 | 60,926 | 50,206 |

**OGPC SDN. BHD.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
AS AT 31 DECEMBER 2012, 2013 AND 2014**

## 1. GENERAL INFORMATION

### 1.1 Background Information

The Company (Registration Number 300347-H) is a private company limited by shares and is incorporated under the Companies Act 1965 in Malaysia. The registered office and principal place of business are as follows:

| | |
|---|---|
| Registered office: | B-13-15, Level 13, Menara Prima Tower B,<br>Jalan PJU 1/39, Dataran Prima,<br>47301 Petaling Jaya,<br>Selangor Darul Ehsan. |
| Principal place of business: | 24 Jalan Astaka L U8/L,<br>Bukit Jelutong, Seksyen U8,<br>40150 Shah Alam,<br>Selangor Darul Ehsan. |

Details of the Group at the date of this report are as follows:-

| Name of Company | Date of Incorporation | Country of Incorporation | Issued and Paid-up Capital RM'000 | Effective Equity Interest | Principal Activities |
|---|---|---|---|---|---|
| OGPC Sdn. Bhd. ("OGPC") | 14 May 1994 | Malaysia | 500 | 100% | The provision of engineering and technical support services for the oil and gas industry. |
| OGPCOG O & G Sdn. Bhd. ("OGPCOG") | 6 February 2008 | Malaysia | 1,000 | 48% | Sale of oil and gas related equipment, provision of engineering and technical support services for the oil and gas industry. |

**OGPC SDN. BHD.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT 31 DECEMBER 2012, 2013 AND 2014**

## 2. BASIS OF PREPARATION

(a) The consolidated financial statements are prepared under the historical cost convention and modified to include other bases of valuation as disclosed in other sections under significant accounting policies, and in compliance with Malaysian Financial Reporting Standards ("MFRSs") and International Financial Reporting Standards.

The transition to MFRSs is accounted for in accordance with MFRS 1 First-time Adoption of Malaysian Financial Reporting Standards, with 1 January 2013 as the date of transition.

Upon transition of MFRSs, MFRS 10 has only one basis for consolidation which is control. Extensive guidance has been provided in the standard to assist in the determination of control. This standard has been applied retrospectively and the effects are disclosed in the consolidated financial statements and its disclosures.

(b) The Group has not applied in advance the following accounting standard(s) and/or interpretation(s) (including the consequential amendments, if any) that have been issued by the Malaysian Accounting Standards Board (MASB) but are not yet effective for the current financial year:-

| **MFRSs and/or IC Interpretations (Including The Consequential Amendments)** | **Effective Date** |
|---|---|
| MFRS 9 Financial Instruments (IFRS 9 issued by IASB in July 2014) | 1 January 2018 |
| MFRS 15 Revenue from Contracts with Customers | 1 January 2018 |
| Amendments to MFRS 10 and MFRS 128 (2011): Sale or Contribution of Assets between an Investor and its Associate or Joint Venture | 1 January 2016 |
| Amendments to MFRS 11: Accounting for Acquisitions of Interests in Joint Operations | 1 January 2016 |
| Amendments to MFRS 10, MFRS 12 and MFRS 128 (2011): Investment Entities – Applying the Consolidation Exception | 1 January 2016 |
| Amendments to MFRS 101: Presentation of Financial Statements – Disclosure Initiative | 1 January 2016 |
| Amendments to MFRS 116 and MFRS 138: Clarification of Acceptable Methods of Depreciation and Amortisation | 1 January 2016 |
| Amendments to MFRS 116 and MFRS 141: Agriculture – Bearer Plants | 1 January 2016 |

**OGPC SDN. BHD.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**
**AS AT 31 DECEMBER 2012, 2013 AND 2014**

## 2. BASIS OF PREPARATION (CONT'D)

(b) The Group has not applied in advance the following accounting standard(s) and/or interpretation(s) (including the consequential amendments, if any) that have been issued by the Malaysian Accounting Standards Board (MASB) but are not yet effective for the current financial year:- (cont'd)

| **MFRSs and/or IC Interpretations (Including The Consequential Amendments)** | **Effective Date** |
|---|---|
| Amendments to MFRS 127 (2011): Equity Method in Separate Financial Statements | 1 January 2016 |
| Annual Improvements to MFRSs 2010 – 2012 Cycle | 1 July 2014 |
| Annual Improvements to MFRSs 2011 – 2013 Cycle | 1 July 2014 |
| Annual Improvements to MFRSs 2012 – 2014 Cycle | 1 January 2016 |

The above accounting standard(s) and/or interpretation(s) (including the consequential amendments) are not relevant to the Group's operations except as follows:-

(i) MFRS 9 (IFRS 9 issued by IASB in July 2014) replaces the existing guidance in MFRS 139 and introduces a revised guidance on the classification and measurement of financial instruments, including a single forward-looking 'expected loss' impairment model for calculating impairment on financial assets, and a new approach to hedge accounting. Under this MFRS 9, the classification of financial assets is driven by cash flow characteristics and the business model in which a financial asset is held. The Group is in the process of making an assessment of the financial impact arising from the adoption of MFRS 9 and the extent of the impact has not been determined.

(ii) MFRS 15 establishes a single comprehensive model for revenue recognition and will supersede the current revenue recognition guidance and other related interpretations when it becomes effective. Under MFRS 15, an entity shall recognise revenue when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customers. In addition, extensive disclosures are required by MFRS 15. The Group anticipates that the application of MFRS 15 in the future may have a material impact on the amounts reported and disclosures made in the financial statements. However, it is not practicable to provide a reasonable estimate of the financial impacts of MFRS 15 until the Group performs a detailed review.

**OGPC SDN. BHD.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**
**AS AT 31 DECEMBER 2012, 2013 AND 2014**

## 2. BASIS OF PREPARATION (CONT'D)

(b) The Group has not applied in advance the following accounting standard(s) and/or interpretation(s) (including the consequential amendments, if any) that have been issued by the Malaysian Accounting Standards Board (MASB) but are not yet effective for the current financial year:- (Cont'd)

The above accounting standard(s) and/or interpretation(s) (including the consequential amendments) are not relevant to the Group's operations except as follows:- (Cont'd)

(iii) The amendments to MFRS 116 and MFRS 138 prohibit revenue-based depreciation and amortisation because revenue does not, as a matter of principle, reflect the way in which an item of property, plant and equipment and intangible assets is used or consumed. There will be no financial impact on the financial statements of the Group upon its initial application but may impact its future disclosures.

## 3. SIGNIFICANT ACCOUNTING POLICIES

### a) Critical Accounting Estimates and Judgements

Estimates and judgements are continually evaluated by the directors and management and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The estimates and judgements that affect the application of the Group's accounting policies and disclosures, and have a significant risk of causing a material adjustment to the carrying amounts of assets, liabilities, income and expenses are discussed below:-

#### (i) Depreciation of Property, Plant and Equipment

The estimates for the residual values, useful lives and related depreciation charges for the property, plant and equipment are based on commercial factors which could change significantly as a result of technical innovations and competitors' actions in response to the market conditions. The Group anticipates that the residual values of its property, plant and equipment will be insignificant. As a result, residual values are not being taken into consideration for the computation of the depreciable amount. Changes in the expected level of usage and technological development could impact the economic useful lives and the residual values of these assets, therefore future depreciation charges could be revised.

**OGPC SDN. BHD.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT 31 DECEMBER 2012, 2013 AND 2014**

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

### a) Critical Accounting Estimates and Judgements (Cont'd)

#### (ii) Income Taxes

There are certain transactions and computations for which the ultimate tax determination may be different from the initial estimate. The Group recognises tax liabilities based on its understanding of the prevailing tax laws and estimates of whether such taxes will be due in the ordinary course of business. Where the final outcome of these matters is different from the amounts that were initially recognised, such difference will impact the income tax and deferred tax provisions in the year in which such determination is made.

#### (iii) Impairment of Non-Financial Assets

When the recoverable amount of an asset is determined based on the estimate of the value-in-use of the cash-generating unit to which the asset is allocated, the management is required to make an estimate of the expected future cash flows from the cash-generating unit and also to apply a suitable discount rate in order to determine the present value of those cash flows.

#### (iv) Write-down of Inventories

Reviews are made periodically by management on damaged, obsolete and slow-moving inventories. These reviews require judgement and estimates. Possible changes in these estimates could result in revisions to the valuation of inventories.

**OGPC SDN. BHD.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**
**AS AT 31 DECEMBER 2012, 2013 AND 2014**

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

### a) Critical Accounting Estimates and Judgements (Cont'd)

#### (v) Impairment of Trade and Other Receivables

An impairment loss is recognised when there is objective evidence that a financial asset is impaired. Management specifically reviews its loans and receivables financial assets and analyses historical bad debts, customer concentrations, customer creditworthiness, current economic trends and changes in the customer payment terms when making a judgement to evaluate the adequacy of the allowance for impairment losses. Where there is objective evidence of impairment, the amount and timing of future cash flows are estimated based on historical loss experience for assets with similar credit risk characteristics. If the expectation is different from the estimation, such difference will impact the carrying value of receivables.

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
AS AT 31 DECEMBER 2012, 2013 AND 2014**

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

### b) BASIS OF CONSOLIDATION

The consolidated financial statements include the financial statements of the Company and its subsidiary made up to the end of the reporting period.

Subsidiaries are entities (including structured entities) controlled by the Group. the Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

Subsidiaries are consolidated from the date on which control is transferred to the Group up to the effective date on which control ceases, as appropriate.

Intragroup transactions, balances, income and expenses are eliminated on consolidation. Where necessary, adjustments are made to the financial statements of subsidiaries to ensure consistency of accounting policies with those of the Group.

#### (i) Business Combinations

Acquisitions of businesses are accounted for using the acquisition method. Under the acquisition method, the consideration transferred for acquisition of a subsidiary is the fair value of the assets transferred, liabilities incurred and the equity interests issued by the Group at the acquisition date. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs, other than the costs to issue debt or equity securities, are recognised in profit or loss when incurred.

In a business combination achieved in stages, previously held equity interests in the acquiree are remeasured to fair value at the acquisition date and any corresponding gain or loss is recognised in profit or loss.

Non-controlling interests in the acquiree may be initially measured either at fair value or at the non-controlling interests' proportionate share of the fair value of the acquiree's identifiable net assets at the date of acquisition. The choice of measurement basis is made on a transaction-by-transaction basis.

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT 31 DECEMBER 2012, 2013 AND 2014**

**3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**

**b) BASIS OF CONSOLIDATION (CONT'D)**

**(ii) Non-Controlling Interests**

Non-controlling interests are presented within equity in the consolidated statement of financial position, separately from the equity attributable to owners of the Company. Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income is attributed to non-controlling interests even if this results in the non-controlling interests having a deficit balance.

At the end of each reporting period, the carrying amount of non-controlling interests is the amount of those interests at initial recognition plus the non-controlling interests' share of subsequent changes in equity.

**(iii) Changes in Ownership Interests in Subsidiaries Without Change of Control**

All changes in the parent's ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions. Any difference between the amount by which the non-controlling interest is adjusted and the fair value of consideration paid or received is recognised directly in equity of the Group.

**(iv) Loss of Control**

Upon the loss of control of a subsidiary, the Group recognises any gain or loss on disposal in profit or loss which is calculated as the difference between:-

(i) the aggregate of the fair value of the consideration received and the fair value of any retained interest in the former subsidiary; and

(ii) the previous carrying amount of the assets (including goodwill), and liabilities of the former subsidiary and any non-controlling interests.

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**
**AS AT 31 DECEMBER 2012, 2013 AND 2014**

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

### b) BASIS OF CONSOLIDATION (CONT'D)

#### (iv) Loss of Control (cont'd)

Amounts previously recognised in other comprehensive income in relation to the former subsidiary are accounted for in the same manner as would be required if the relevant assets or liabilities were disposed of (i.e. reclassified to profit or loss or transferred directly to retained profits). The fair value of any investments retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under MFRS 139 or, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

The Company holds 48.0% of OGPCOG, the directors of the Company and OGPCOG are the same and exercise management control in the Group. Consequently, OGPCOG is a subsidiary of the Company and the Company consolidates its investment in OGPCOG.

### c) GOODWILL

Goodwill is measured at cost less accumulated impairment losses, if any. The carrying value of goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying amount may be impaired. The impairment value of goodwill is recognised immediately in profit or loss. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Under the acquisition method, any excess of the sum of the fair value of the consideration transferred in the business combination, the amount of non-controlling interests recognised and the fair value of the Group's previously held equity interest in the acquiree (if any), over the net fair value of the acquiree's identifiable assets and liabilities at the date of acquisition is recorded as goodwill.

Where the latter amount exceeds the former, after reassessment, the excess represents a bargain purchase gain and is recognised as a gain in profit or loss.

### d) FUNCTIONAL AND FOREIGN CURRENCIES

#### (i) Functional and Presentation Currency

The individual financial statements of each entity in the Group are presented in the currency of the primary economic environment in which the entity operates, which is the functional currency.

The consolidated financial statements are presented in Ringgit Malaysia ("RM"), which is the Group's functional and presentation currency.

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**
**AS AT 31 DECEMBER 2012, 2013 AND 2014**

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

### d) FUNCTIONAL AND FOREIGN CURRENCIES (CONT'D)

#### (ii) Transactions and Balances

Transactions in foreign currencies are converted into the respective functional currencies on initial recognition, using the exchange rates approximating those ruling at the transaction dates. Monetary assets and liabilities at the end of the reporting period are translated at the rates ruling as of that date. Non-monetary assets and liabilities are translated using exchange rates that existed when the values were determined. All exchange differences are recognised in profit or loss.

### e) FINANCIAL INSTRUMENTS

Financial instruments are recognised in the statements of financial position when the Group has become a party to the contractual provisions of the instruments.

Financial instruments are classified as liabilities or equity in accordance with the substance of the contractual arrangement. Interest, dividends, gains and losses relating to a financial instrument classified as a liability, are reported as an expense or income. Distributions to holders of financial instruments classified as equity are charged directly to equity.

Financial instruments are offset when the Group has a legally enforceable right to offset and intends to settle either on a net basis or to realise the asset and settle the liability simultaneously.

A financial instrument is recognised initially at its fair value. Transaction costs that are directly attributable to the acquisition or issue of the financial instrument (other than a financial instrument at fair value through profit or loss) are added to/deducted from the fair value on initial recognition, as appropriate. Transaction costs on the financial instrument at fair value through profit or loss are recognised immediately in profit or loss.

Financial instruments recognised in the statements of financial position are disclosed in the individual policy statement associated with each item.

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT 31 DECEMBER 2012, 2013 AND 2014**

**3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**

**e) FINANCIAL INSTRUMENTS (CONT'D)**

**(i) Financial Assets**

On initial recognition, financial assets are classified as either financial assets at fair value through profit or loss, held-to-maturity investments, loans and receivables financial assets, or available-for-sale financial assets, as appropriate.

- *Financial Assets at Fair Value Through Profit or Loss*

  Financial assets are classified as financial assets at fair value through profit or loss when the financial asset is either held for trading or is designated to eliminate or significantly reduce a measurement or recognition inconsistency that would otherwise arise. Derivatives are also classified as held for trading unless they are designated as hedges.

  Financial assets at fair value through profit or loss are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. Dividend income from this category of financial assets is recognised in profit or loss when the Group's right to receive payment is established.

  Financial assets at fair value through profit or loss could be presented as current or non-current. Financial assets that are held primarily for trading purposes are presented as current whereas financial assets that are not held primarily for trading purposes are presented as current or non-current based on the settlement date.

- *Held-to-maturity Investments*

  Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the management has the positive intention and ability to hold to maturity. Held-to-maturity investments are measured at amortised cost using the effective interest method less any impairment loss, with revenue recognised on an effective yield basis.

  Held-to-maturity investments are classified as non-current assets, except for those having maturity within 12 months after the reporting date which are classified as current assets.

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT 31 DECEMBER 2012, 2013 AND 2014**

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

### e) FINANCIAL INSTRUMENTS (CONT'D)

#### (i) Financial Assets

- *Loans and Receivables Financial Assets*

  Trade receivables and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as loans and receivables financial assets. Loans and receivables financial assets are measured at amortised cost using the effective interest method, less any impairment loss. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

  Loans and receivables financial assets are classified as current assets, except for those having settlement dates later than 12 months after the reporting date which are classified as non-current assets.

- *Available-for-sale Financial Assets*

  Available-for-sale financial assets are non-derivative financial assets that are designated in this category or are not classified in any of the other categories.

  After initial recognition, available-for-sale financial assets are remeasured to their fair values at the end of each reporting period. Gains and losses arising from changes in fair value are recognised in other comprehensive income and accumulated in the fair value reserve, with the exception of impairment losses. On derecognition, the cumulative gain or loss previously accumulated in the fair value reserve is reclassified from equity into profit or loss.

  Dividends on available-for-sale equity instruments are recognised in profit or loss when the Group's right to receive payments is established.

  Investments in equity instruments whose fair value cannot be reliably measured are measured at cost less accumulated impairment losses, if any.

  Available-for-sale financial assets are classified as non-current assets unless they are expected to be realised within 12 months after the reporting date.

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT 31 DECEMBER 2012, 2013 AND 2014**

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

### e) FINANCIAL INSTRUMENTS (CONT'D)

#### (ii) Financial Liabilities

All financial liabilities are initially measured at fair value plus directly attributable transaction costs and subsequently measured at amortised cost using the effective interest method other than those categorised as fair value through profit or loss.

Fair value through profit or loss category comprises financial liabilities that are either held for trading or are designated to eliminate or significantly reduce a measurement or recognition inconsistency that would otherwise arise. Derivatives are also classified as held for trading unless they are designated as hedges.

Financial liabilities are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

#### (iii) Equity Instruments

Instruments classified as equity are measured at cost and are not remeasured subsequently.

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from proceeds.

Dividends on ordinary shares are recognised as liabilities when approved for appropriation.

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**
**AS AT 31 DECEMBER 2012, 2013 AND 2014**

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

### e) FINANCIAL INSTRUMENTS (CONT'D)

#### (iv) Derecognition

A financial asset or part of it is derecognised when, and only when, the contractual rights to the cash flows from the financial asset expire or the financial asset is transferred to another party without retaining control or substantially all risks and rewards of the asset. On derecognition of a financial asset, the difference between the carrying amount and the sum of the consideration received (including any new asset obtained less any new liability assumed) and any cumulative gain or loss that had been recognised in equity is recognised in profit or loss.

A financial liability or a part of it is derecognised when, and only when, the obligation specified in the contract is discharged or cancelled or expires. On derecognition of a financial liability, the difference between the carrying amount of the financial liability extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss.

### f) INVESTMENTS IN SUBSIDIARIES

Investments in subsidiaries are stated at cost in the statement of financial position of the Company, and are reviewed for impairment at the end of the reporting period if events or changes in circumstances indicate that the carrying values may not be recoverable. The cost of the investment includes transaction costs.

On the disposal of the investment in a subsidiary, the difference between the net disposal proceeds and the carrying amount of the investment is recognised in profit or loss.

### g) PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment, other than freehold land, are stated at cost less accumulated depreciation and impairment losses, if any.

Freehold land is stated at cost less impairment losses and is not depreciated.

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**
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## 3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

### g) PROPERTY, PLANT AND EQUIPMENT (CONT'D)

Depreciation is charged to profit or loss (unless it is included in the carrying amount of another asset) on the straight-line method to write off the depreciable amount of the assets over their estimated useful lives. Depreciation of an asset does not cease when the asset becomes idle or is retired from active use unless the asset is fully depreciated. The principal annual rates used for this purpose are:-

| | |
|---|---|
| Buildings | 2% |
| Renovation | 10% |
| Office equipment and computers | 10% |
| Furniture and fittings | 10% |
| Motor vehicles | 20% |

The depreciation method, useful lives and residual values are reviewed, and adjusted if appropriate, at the end of each reporting period to ensure that the amounts, method and periods of depreciation are consistent with previous estimates and the expected pattern of consumption of the future economic benefits embodied in the items of the property, plant and equipment.

Factory buildings under construction in previous financial years represented assets under construction, and which were not ready for commercial use at the end of the reporting period. Factory buildings under construction was stated at cost, and was transferred to the relevant category of assets and depreciated accordingly when the assets were completed and ready for commercial use. Cost of the factory buildings under construction included direct costs, related expenditure and interest cost on borrowings taken to financed the construction or acquisition of the assets to the date that the assets were completed and put into use.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when the cost is incurred and it is probable that the future economic benefits associated with the asset will flow to the Group and the cost of the asset can be measured reliably. The carrying amount of parts that are replaced is derecognised. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred. Cost also comprises the initial estimate of dismantling and removing the asset and restoring the site on which it is located for which the Group is obligated to incur when the asset is acquired, if applicable.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use. Any gain or loss arising from derecognition of the asset is recognised in profit or loss.

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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## 3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

### h) IMPAIRMENT

#### (i) Impairment of Financial Assets

All financial assets (other than those categorised at fair value through profit or loss), are assessed at the end of each reporting period whether there is any objective evidence of impairment as a result of one or more events having an impact on the estimated future cash flows of the asset. For an equity instrument, a significant or prolonged decline in the fair value below its cost is considered to be objective evidence of impairment.

An impairment loss in respect of held-to-maturity investments and loans and receivables financial assets is recognised in profit or loss and is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

An impairment loss in respect of available-for-sale financial assets is recognised in profit or loss and is measured as the difference between its cost (net of any principal payment and recognised and its current fair value, less any impairment loss previously recognised in the fair value reserve. In addition, the cumulative loss recognised in other comprehensive income and accumulated in equity under fair value reserve, is reclassified from equity to profit or loss.

With the exception of available-for-sale equity instruments, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised. In respect of available-for-sale equity instruments, impairment losses previously recognised in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss made is recognised in other comprehensive income.

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**
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## 3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

### h) IMPAIRMENT (CONT'D)

#### (ii) Impairment of Non-Financial Assets

The carrying values of assets, other than those to which MFRS 136 - Impairment of Assets does not apply, are reviewed at the end of each reporting period for impairment when there is an indication that the assets might be impaired. Impairment is measured by comparing the carrying values of the assets with their recoverable amounts. The recoverable amount of the assets is the higher of the assets' fair value less costs to sell and their value-in-use, which is measured by reference to discounted future cash flow.

An impairment loss is recognised in profit or loss immediately unless the asset is carried at its revalued amount. Any impairment loss of a revalued asset is treated as a revaluation decrease to the extent of a previously recognised revaluation surplus for the same asset.

In respect of assets other than goodwill, and when there is a change in the estimates used to determine the recoverable amount, a subsequent increase in the recoverable amount of an asset is treated as a reversal of the previous impairment loss and is recognised to the extent of the carrying amount of the asset that would have been determined (net of amortisation and depreciation) had no impairment loss been recognised. The reversal is recognised in profit or loss immediately, unless the asset is carried at its revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

### i) INVENTORIES

Inventories are stated at the lower of cost and net realisable value. The cost of raw materials and trading merchandise comprise the original purchase price plus cost of bringing the inventories to their present location and condition. The costs of work-in-progress and finished goods comprise the cost of raw materials, direct labour and a proportion of the production overheads.

Net realisable value represents the estimated selling price in the ordinary course of business less the estimated costs necessary to make the sale.

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**
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## 3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

### j) INCOME TAXES

Income tax for the year comprises current and deferred tax.

Current tax is the expected amount of income taxes payable in respect of the taxable profit for the reporting period and is measured using the tax rates that have been enacted or substantively enacted at the end of the reporting period.

Deferred tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements.

Deferred tax liabilities are recognised for all taxable temporary differences other than those that arise from goodwill or excess of the acquirer's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over the business combination costs or from the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction, affects neither accounting profit nor taxable profit.

Deferred tax assets are recognised for all deductible temporary differences, unused tax losses and unused tax credits to the extent that it is probable that future taxable profits will be available against which the deductible temporary differences, unused tax losses and unused tax credits can be utilised. The carrying amounts of deferred tax assets are reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient future taxable profits will be available to allow all or part of the deferred tax assets to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period when the asset is realised or the liability is settled, based on the tax rates that have been enacted or substantively enacted at the end of the reporting period.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when the deferred income taxes relate to the same taxation authority.

Deferred tax relating to items recognised outside profit or loss is recognised outside profit or loss. Deferred tax items are recognised in correlation to the underlying transactions either in other comprehensive income or directly in equity and deferred tax arising from a business combination is included in the resulting goodwill or excess of the acquirer's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over the business combination costs.

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT 31 DECEMBER 2012, 2013 AND 2014**

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

### k) CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise cash in hand, bank balances, demand deposits, bank overdrafts and short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value with original maturity periods of three months or less.

### l) EMPLOYEE BENEFITS

#### (i) Short-term Benefits

Wages, salaries, paid annual leave and sick leave, bonuses and non-monetary benefits are measured on an undiscounted basis and are recognised in profit or loss in the period in which the associated services are rendered by employees of the Group.

#### (ii) Defined Contribution Plans

The Group's contributions to defined contribution plans are recognised in profit or loss in the period to which they relate. Once the contributions have been paid, the Group has no further liability in respect of the defined contribution plans.

### m) PROVISIONS

Provisions are recognised when the Group has a present obligation as a result of past events, when it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and when a reliable estimate of the amount can be made. Provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimate. Where the effect of the time value of money is material, the provision is the present value of the estimated expenditure required to settle the obligation. The unwinding of the discount is recognised as interest expense in profit or loss.

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**
**AS AT 31 DECEMBER 2012, 2013 AND 2014**

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

### n) CONTINGENT LIABILITIES

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that an outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the financial statements. When a change in the probability of an outflow occurs so that the outflow is probable, it will then be recognised as a provision.

### o) FAIR VALUE MEASURMENTS

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using a valuation technique. The measurement assumes that the transaction takes place either in the principal market or in the absence of a principal market, in the most advantageous market. For non-financial asset, the fair value measurement takes into account a market's participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

For financial reporting purposes, the fair value measurements are analysed into level 1 to level 3 as follows:-

Level 1: Inputs are quoted prices (unadjusted) in active markets for identical assets or liability that the entity can access at the measurement date;

Level 2: Inputs are inputs, other than quoted prices included within level 1, that are observable for the asset or liability, either directly or indirectly; and

Level 3: Inputs are unobservable inputs for the asset or liability.

The transfer of fair value between levels is determined as of the date of the event or change in circumstances that caused the transfer.

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**
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## 3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

### p) RELATED PARTIES

A party is related to an entity (referred to as the "reporting entity") if:-

(a) A person or a close member of that person's family is related to a reporting entity if that person:-

- (i) has control or joint control over the reporting entity;
- (ii) has significant influence over the reporting entity; or
- (iii) is a member of the key management personnel of the reporting entity or of a parent of the reporting entity.

(b) An entity is related to a reporting entity if any of the following conditions applies:-

- (i) the entity and the reporting entity are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
- (ii) one entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
- (iii) both entities are joint ventures of the same third party.
- (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity.
- (v) the entity is a post-employment benefit plan for the benefit of employees of either the reporting entity or an entity related to the reporting entity. If the reporting entity is itself such a plan, the sponsoring employers are also related to the reporting entity.
- (vi) the entity is controlled or jointly controlled by a person identified in (a) above.
- (vii) a person identified in (a)(i) above has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
AS AT 31 DECEMBER 2012, 2013 AND 2014**

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

### q) REVENUE AND OTHER INCOME

#### (i) Sale of Goods

Revenue is measured at fair value of the consideration received or receivable and is recognised upon delivery of goods and customers' acceptance and where applicable, net of returns and trade discounts.

#### (ii) Services

Revenue is recognised upon the rendering of services and when the outcome of the transaction can be estimated reliably. In the event the outcome of the transaction could not be estimated reliably, revenue is recognised to the extent of the expenses incurred that are recoverable.

#### (iii) Interest Income

Interest income is recognised on an accrual basis using the effective interest method.

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**
**AS AT 31 DECEMBER 2012, 2013 AND 2014**

## 4. PROPERTY, PLANT AND EQUIPMENT

| The Group | Freehold Land and Buildings RM'000 | Factory Buildings Under Construction RM'000 | Renovation RM'000 | Office Equipment and Computers RM'000 | Furniture and Fittings RM'000 | Motor Vehicles RM'000 | Total RM'000 |
|---|---|---|---|---|---|---|---|
| Cost | | | | | | | |
| At 1.1.2012 | 820 | 5,440 | 199 | 349 | 328 | 1,763 | 8,899 |
| Additions | - | 1,087 | - | 74 | 1 | - | 1,162 |
| Written off | - | - | - | (84) | - | - | (84) |
| At 31.12.2012/1.1.2013 | 820 | 6,527 | 199 | 339 | 329 | 1,763 | 9,977 |
| Additions | - | 726 | - | 21 | - | - | 747 |
| Transfer from/(to) | 7,253 | (7,253) | - | - | - | - | - |
| At 31.12.2013/1.1.2014 | 8,073 | - | 199 | 360 | 329 | 1,763 | 10,724 |
| Additions | - | - | - | 16 | 2 | - | 18 |
| Written off | - | - | - | (9) | (7) | - | (16) |
| At 31.12.2014 | 8,073 | - | 199 | 367 | 324 | 1,763 | 10,726 |

**OGPC SDN. BHD.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
AS AT 31 DECEMBER 2012, 2013 AND 2014**

## 4. PROPERTY, PLANT AND EQUIPMENT (CONT'D)

| THE GROUP | FREEHOLD LAND AND BUILDINGS RM'000 | FACTORY BUILDINGS UNDER CONSTRUCTION RM'000 | RENOVATION RM'000 | OFFICE EQUIPMENT AND COMPUTERS RM'000 | FURNITURE AND FITTINGS RM'000 | MOTOR VEHICLES RM'000 | TOTAL RM'000 |
|---|---|---|---|---|---|---|---|
| ACCUMULATED DEPRECIATION | | | | | | | |
| At 1.1.2012 | 213 | - | 169 | 208 | 281 | 731 | 1,602 |
| Depreciation for the financial year | 16 | - | 6 | 28 | 8 | 347 | 405 |
| Written off | - | - | - | (68) | - | - | (68) |
| At 31.12.2012/1.1.2013 | 229 | - | 175 | 168 | 289 | 1,078 | 1,939 |
| Depreciation for the financial year | 162 | - | 6 | 29 | 8 | 343 | 548 |
| At 31.12.2013/1.1.2014 | 391 | - | 181 | 197 | 297 | 1,421 | 2,487 |
| Depreciation for the financial year | 161 | - | 7 | 30 | 7 | 342 | 547 |
| Written off | - | - | - | (4) | (7) | - | (11) |
| At 31.12.2014 | 552 | - | 188 | 223 | 297 | 1,763 | 3,023 |

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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## 4. PROPERY, PLANT AND EQUIPMENT (CONT'D)

| THE GROUP | FREEHOLD LAND AND BUILDINGS RM'000 | FACTORY BUILDINGS UNDER CONSTRUCTION RM'000 | RENOVATION RM'000 | OFFICE EQUIPMENT AND COMPUTERS RM'000 | FURNITURE AND FITTINGS RM'000 | MOTOR VEHICLES RM'000 | TOTAL RM'000 |
|---|---|---|---|---|---|---|---|
| NET BOOK VALUE | | | | | | | |
| At 31.12.2012 | 591 | 6,527 | 24 | 171 | 40 | 685 | 8,038 |
| At 31.12.2013 | 7,682 | - | 18 | 163 | 32 | 342 | 8,237 |
| At 31.12.2014 | 7,521 | - | 11 | 144 | 27 | - | 7,703 |

Included in net book value of property, plant and equipment at the end of the Relevant Periods are the following assets pledged to financial institutions as security for banking facilities granted to the Group:-

| | 2012 RM'000 | 2013 RM'000 | 2013 RM'000 |
|---|---|---|---|
| Freehold land and buildings | 591 | 574 | - |

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## 5. INVENTORIES

| | 2012<br>RM'000 | 2013<br>RM'000 | 2014<br>RM'000 |
|---|---|---|---|
| At cost: | | | |
| Trading merchandise in transit | 3,222 | 5,678 | 5,455 |

## 6. TRADE RECEIVABLES

| | 2012<br>RM'000 | 2013<br>RM'000 | 2014<br>RM'000 |
|---|---|---|---|
| Trade receivables | 27,298 | 32,497 | 29,392 |
| Allowance for impairment losses | - | - | - |
| | 27,298 | 32,497 | 29,392 |

The normal trade credit terms granted to the Group at the end of the Relevant Periods are as follows:-

| | 2012 | 2013 | 2014 |
|---|---|---|---|
| Credit terms (days) | 30 to 60 | 30 to 60 | 30 to 60 |

## 7. OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

| | 2012<br>RM'000 | 2013<br>RM'000 | 2014<br>RM'000 |
|---|---|---|---|
| Other receivables | 93 | 41 | 1,040 |
| Deposits | 54 | 85 | 120 |
| Prepayments | - | 2 | - |
| | 147 | 128 | 1,160 |

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## 8. FIXED DEPOSITS WITH LICENSED BANKS

Included in the fixed deposits were the following deposits pledged to licensed banks as security for banking facilities granted to the Group:-

| | **2012** | **2013** | **2014** |
|---|---|---|---|
| | RM'000 | RM'000 | RM'000 |
| Fixed deposits pledged to licensed banks | 5,757 | 7,741 | 3,171 |

The effective interest rates and maturity periods of the fixed deposits at the end of the Relevant Periods are as follows:-

| | **2012** | **2013** | **2014** |
|---|---|---|---|
| Effective interest rate % | 0.01% to 3.40% | 0.01% to 3.05% | 0.01% to 3.15% |
| Maturity period (days) | 30 to 90 | 30 to 90 | 30 to 90 |

## 9. SHARE CAPITAL

| | **2012** | **2013** | **2014** | **2012** | **2013** | **2014** |
|---|---|---|---|---|---|---|
| | Number of shares ('000) | | | RM'000 | RM'000 | RM'000 |
| Ordinary share of RM1 each | | | | | | |
| Authorised | 500 | 500 | 500 | 500 | 500 | 500 |
| Issued and fully paid-up | 500 | 500 | 500 | 500 | 500 | 500 |

## 10. RETAINED PROFITS

Under the single-tier tax system, tax on the Company's profits is the final tax and accordingly, any dividends to the shareholders are not subject to tax.

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT 31 DECEMBER 2012, 2013 AND 2014**

## 11. DEFERRED TAX LIABILITY

| | **2012**<br>RM'000 | **2013**<br>RM'000 | **2014**<br>RM'000 |
|---|---|---|---|
| At 1 January/31 December | 30 | 30 | 30 |

The deferred tax liability is attributable to the following:-

| | **2012**<br>RM'000 | **2013**<br>RM'000 | **2014**<br>RM'000 |
|---|---|---|---|
| Taxable temporary differences : | | | |
| Accelerated capital allowances | 30 | 30 | 30 |

## 12. TRADE PAYABLES

The normal trade credit terms granted to the Group at the end of the Relevant Periods are as follows:-

| | **2012** | **2013** | **2014** |
|---|---|---|---|
| Credit terms (days) | 30 to 60 | 30 to 60 | 30 to 60 |

## 13. OTHER PAYABLES, DEPOSITS AND ACCRUALS

| | **2012**<br>RM'000 | **2013**<br>RM'000 | **2014**<br>RM'000 |
|---|---|---|---|
| Other payables | 952 | 3,245 | 4,681 |
| Accruals | 35 | 31 | 71 |
| | 987 | 3,276 | 4,752 |

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT 31 DECEMBER 2012, 2013 AND 2014**

## 14. REVENUE

| | 2012<br>RM'000 | 2013<br>RM'000 | 2014<br>RM'000 |
|---|---|---|---|
| Sale of oil and gas related equipment | 105,295 | 120,113 | 78,561 |
| Implementation services arising from sale of oil and gas related equipment | 9,270 | 16,953 | 10,745 |
| | 114,565 | 137,066 | 89,306 |

## 15. PROFIT BEFORE TAXATION

| | 2012<br>RM'000 | 2013<br>RM'000 | 2014<br>RM'000 |
|---|---|---|---|
| Profit before taxation is arrived at after charging/(crediting): | | | |
| Audit fee: | | | |
| - statutory: | | | |
| - for the financial year | 37 | 47 | 65 |
| - underprovision in the previous financial year | 9 | 12 | 2 |
| - special | - | - | 88 |
| Depreciation of property, plant and equipment | 405 | 548 | 547 |
| Directors' remuneration: | | | |
| - fees | 180 | 180 | 180 |
| - other emoluments | 971 | 1,161 | 1,291 |
| Property, plant and equipment written off | 16 | - | 5 |
| Rental of premises | 39 | 38 | 40 |
| Rental of machinery and equipment | 4 | 7 | 6 |
| Staff costs: | | | |
| - salaries, bonus and allowances | 2,348 | 3,438 | 3,606 |
| - defined contribution plan | 298 | 338 | 357 |
| - other benefits | 101 | 178 | 195 |
| Loss on foreign exchange: | | | |
| - realised | - | 17 | 105 |
| - unrealised | 976 | - | 30 |
| Bad debts recovered | (289) | (95) | (66) |
| Compensation received | (1,700) | - | - |
| Gain on foreign exchange: | | | |
| - realised | (2) | (9) | - |
| - unrealised | - | (3,419) | (1,143) |
| Interest income | (65) | (65) | (244) |

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**
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## 16. INCOME TAX EXPENSE

| | **2012** RM'000 | **2013** RM'000 | **2014** RM'000 |
|---|---|---|---|
| Current tax expense: | | | |
| - for the financial year | 6,280 | 7,637 | 7,533 |
| - under/(over)provision in the previous financial year | 16 | (401) | (458) |
| | 6,296 | 7,236 | 7,075 |

The corporate tax rate on the first RM500,000 of chargeable income is 20%. The tax rate applicable to the balance of the chargeable income is 25%.

A reconciliation of income tax expense applicable to the profit before taxation at the statutory tax rate to income tax expense at the effective tax rate of the Group is as follows:-

| | **2012** RM'000 | **2013** RM'000 | **2014** RM'000 |
|---|---|---|---|
| Profit before taxation | 23,021 | 32,515 | 25,965 |
| Tax at applicable tax rate of 25% | 5,755 | 8,129 | 6,491 |
| Tax effects of:- | | | |
| Differential in tax rates | (50) | (50) | (50) |
| Non-deductible expenses | 558 | 347 | 1,378 |
| Non-taxable income | - | (789) | (286) |
| Deferred tax assets not recognised during the financial year | 17 | - | - |
| Under/(over)provision of current taxation in the previous financial year | 16 | (401) | (458) |
| Income tax expense for the financial year | 6,296 | 7,236 | 7,075 |

The statutory tax rate will be reduced to 24% from the current financial year's rate of 25%, effective year of assessment 2016.

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT 31 DECEMBER 2012, 2013 AND 2014**

## 17. DIVIDENDS

| Paid: | 2012 RM'000 | 2013 RM'000 | 2014 RM'000 |
|---|---|---|---|
| First single-tier interim dividend of RM10.00 per ordinary share, in respect of the financial year ended 31 December 2012 | 5,000 | - | - |
| Second single-tier interim dividend of RM20.00 per ordinary share, in respect of the financial year ended 31 December 2012 | 10,000 | - | - |
| Single-tier interim dividend of RM30.00 per ordinary share, in respect of the financial year ended 31 December 2013 | - | 15,000 | - |
| First single-tier interim dividend of RM12.00 per ordinary share, in respect of the financial year ended 31 December 2014 | - | - | 6,000 |
| Second single-tier interim dividend of RM40.00 per ordinary share, in respect of the financial year ended 31 December 2014 | - | - | 20,000 |
| | 15,000 | 15,000 | 26,000 |

## 18. CASH AND CASH EQUIVALENTS

For the purpose of the statements of cash flows, cash and cash equivalents comprise the following:-

| | 2012 RM'000 | 2013 RM'000 | 2014 RM'000 |
|---|---|---|---|
| Fixed deposits with licensed banks (Note 8) | 9,030 | 8,596 | 6,743 |
| Cash and bank balances | 50,144 | 60,071 | 46,634 |
| | 59,174 | 68,667 | 53,377 |
| Less: Fixed deposits pledged as security (Note 8) | (5,757) | (7,741) | (3,171) |
| | 53,417 | 60,926 | 50,206 |

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT 31 DECEMBER 2012, 2013 AND 2014**

## 19. RELATED PARTY DISCLOSURES

(a) Identities of related parties

In addition to the information disclosed elsewhere in the financial statements, the Group has related party relationships with its directors, key management personnel and entities within the same group of companies.

(b) Other than those disclosed elsewhere in the financial statements, the Group carried out the following transactions with the related parties during the Relevant Periods:

| | **2012** RM'000 | **2013** RM'000 | **2014** RM'000 |
|---|---|---|---|
| (i) Staff secondment charges from a related party | 154 | 170 | 186 |
| (ii) Key management personnel compensation | | | |
| - short term remuneration of directors and key management personnel | 1,151 | 1,341 | 1,471 |

## 20. CAPITAL COMMITMENTS

| | **2012** RM'000 | **2013** RM'000 | **2014** RM'000 |
|---|---|---|---|
| Contracted but not provided for:- | | | |
| Purchase of property, plant and equipment | 625 | - | - |

## 21. SIGNIFICANT EVENT SUBSEQUENT TO THE END OF THE REPORTING PERIOD

On 5 March 2015, the shareholders of OGPC Group have subsequently entered into a Supplemental Agreement with DNeX to revise the total disposal consideration from RM203,000,000 to RM170,000,000 which has yet to be completed as of the date of this report.

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT 31 DECEMBER 2012, 2013 AND 2014**

## 22. FOREIGN EXCHANGE RATES

The principal closing foreign exchange rates used (expressed on the basis of one unit of foreign currency to RM equivalent) for the translation of foreign currency balances at the end of the Relevant Periods are as follows:-

| | **2012** RM | **2013** RM | **2014** RM |
|---|---|---|---|
| 1 United States Dollar | 3.103 | 3.328 | 3.540 |
| 1 Euro | 4.104 | 4.596 | 4.310 |
| 1 British Pound Sterling | 5.001 | 5.477 | 5.490 |
| 1 Singapore Dollar | 2.537 | 2.628 | 2.680 |
| 1 Japanese Yen | 0.036 | 0.032 | 0.029 |

## 23. FINANCIAL INSTRUMENTS

The Group's activities are exposed to a variety of market risk (including foreign currency risk, interest rate risk and equity price risk), credit risk and liquidity risk. The Group's overall financial risk management policy focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

(a) FINANCIAL RISK MANAGEMENT POLICIES

The Group's policies in respect of the major areas of treasury activity are as follows:-

**(i) Market Risk**

*(i) Foreign Currency Risk*

The Group is exposed to foreign currency risk on transactions and balances that are denominated in currencies other than Ringgit Malaysia. The currencies giving rise to this risk are primarily United States Dollar, Euro, British Pound Sterling, Singapore Dollar and Japanese Yen. Foreign currency risk is monitored closely on an ongoing basis to ensure that the net exposure is at an acceptable level.

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## 23. FINANCIAL INSTRUMENTS (CONT'D)

(a) FINANCIAL RISK MANAGEMENT POLICIES (CONT'D)

**(i) Market Risk (Cont'd)**

*(i) Foreign Currency Risk (Cont'd)*

Foreign currency exposure

| 2012 | United States Dollar RM'000 | Euro RM'000 | British Pound Sterling RM'000 | Singapore Dollar RM'000 | Japanese Yen RM'000 | Ringgit Malaysia RM'000 | Total RM'000 |
|---|---|---|---|---|---|---|---|
| **Financial Assets** | | | | | | | |
| Trade receivables | 8,079 | 4,784 | 6,733 | - | - | 7,702 | 27,298 |
| Other receivables and deposits | - | - | - | - | - | 147 | 147 |
| Fixed deposits with licensed banks | 5,158 | 1,516 | - | - | - | 2,356 | 9,030 |
| Cash and bank balances | 22,294 | 9,793 | 5,253 | - | - | 12,804 | 50,144 |
| | 35,531 | 16,093 | 11,986 | - | - | 23,009 | 86,619 |

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT 31 DECEMBER 2012, 2013 AND 2014**

## 23. FINANCIAL INSTRUMENTS (CONT'D)

(a) FINANCIAL RISK MANAGEMENT POLICIES (CONT'D)

**(i) Market Risk (Cont'd)**

*(i) Foreign Currency Risk (Cont'd)*

Foreign currency exposure (Cont'd)

| 2012 | United States Dollar RM'000 | Euro RM'000 | British Pound Sterling RM'000 | Singapore Dollar RM'000 | Japanese Yen RM'000 | Ringgit Malaysia RM'000 | Total RM'000 |
|---|---|---|---|---|---|---|---|
| **Financial Liabilities** | | | | | | | |
| Trade payables | 8,822 | 3,304 | 8,983 | 118 | 323 | 1,689 | 23,239 |
| Other payables, deposits and accruals | - | - | - | - | - | 987 | 987 |
| | 8,822 | 3,304 | 8,983 | 118 | 323 | 2,676 | 24,226 |
| Net financial assets/(liabilities) | 26,709 | 12,789 | 3,003 | (118) | (323) | 20,333 | 62,393 |
| Less: Net financial (assets)/ liabilities denominated in the respective entities' functional currencies | - | - | - | - | - | (20,333) | (20,333) |
| Currency Exposure | 26,709 | 12,789 | 3,003 | (118) | (323) | - | 42,060 |

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## 23. FINANCIAL INSTRUMENTS (CONT'D)

(a) FINANCIAL RISK MANAGEMENT POLICIES (CONT'D)

(i) **Market Risk (Cont'd)**

*(i) Foreign Currency Risk (Cont'd)*

Foreign currency exposure (Cont'd)

| 2013 | United States Dollar RM'000 | Euro RM'000 | British Pound Sterling RM'000 | Singapore Dollar RM'000 | Japanese Yen RM'000 | Ringgit Malaysia RM'000 | Total RM'000 |
|---|---|---|---|---|---|---|---|
| **Financial Assets** | | | | | | | |
| Trade receivables | 4,735 | 2,843 | 15,828 | - | 273 | 8,818 | 32,497 |
| Other receivables and deposits | - | - | - | - | - | 126 | 126 |
| Fixed deposits with licensed banks | 4,887 | 1,698 | - | - | - | 2,011 | 8,596 |
| Cash and bank balances | 20,511 | 8,551 | 6,941 | - | - | 24,068 | 60,071 |
| | 30,133 | 13,092 | 22,769 | - | 273 | 35,023 | 101,290 |

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT 31 DECEMBER 2012, 2013 AND 2014**

**23. FINANCIAL INSTRUMENTS (CONT'D)**

(a) FINANCIAL RISK MANAGEMENT POLICIES (CONT'D)

**(i) Market Risk (Cont'd)**

*(i) Foreign Currency Risk (Cont'd)*

Foreign currency exposure (Cont'd)

| 2013 | United States Dollar RM'000 | Euro RM'000 | British Pound Sterling RM'000 | Singapore Dollar RM'000 | Japanese Yen RM'000 | Ringgit Malaysia RM'000 | Total RM'000 |
|---|---|---|---|---|---|---|---|
| **Financial Liabilities** | | | | | | | |
| Trade payables | 2,397 | 4,822 | 16,506 | 3 | 65 | 2,822 | 26,615 |
| Other payables, deposits and accruals | - | - | - | - | - | 3,276 | 3,276 |
| | 2,397 | 4,822 | 16,506 | 3 | 65 | 6,098 | 29,891 |
| Net financial assets/(liabilities) | 27,736 | 8,270 | 6,263 | (3) | 208 | 28,925 | 71,399 |
| Less: Net financial (assets)/ liabilities denominated in the respective entities' functional currencies | - | - | - | - | - | (28,925) | (28,925) |
| Currency Exposure | 27,736 | 8,270 | 6,263 | (3) | 208 | - | 42,474 |

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## 23. FINANCIAL INSTRUMENTS (CONT'D)

(a) FINANCIAL RISK MANAGEMENT POLICIES (CONT'D)

**(i) Market Risk (Cont'd)**

*(i) Foreign Currency Risk (Cont'd)*

Foreign currency exposure (Cont'd)

| 2014 | United States Dollar RM'000 | Euro RM'000 | British Pound Sterling RM'000 | Singapore Dollar RM'000 | Japanese Yen RM'000 | Ringgit Malaysia RM'000 | Total RM'000 |
|---|---|---|---|---|---|---|---|
| **Financial Assets** | | | | | | | |
| Trade receivables | 11,142 | 326 | 9,084 | 93 | 104 | 8,643 | 29,392 |
| Other receivables and deposits | 286 | 744 | - | - | - | 130 | 1,160 |
| Fixed deposits with licensed banks | 4,387 | - | - | - | - | 2,356 | 6,743 |
| Cash and bank balances | 22,807 | 8,301 | 7,236 | - | - | 8,290 | 46,634 |
| | 38,622 | 9,371 | 16,320 | 93 | 104 | 19,419 | 83,929 |

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT 31 DECEMBER 2012, 2013 AND 2014**

## 23. FINANCIAL INSTRUMENTS (CONT'D)

(a) FINANCIAL RISK MANAGEMENT POLICIES (CONT'D)

**(i) Market Risk (Cont'd)**

*(i) Foreign Currency Risk (Cont'd)*

Foreign currency exposure (Cont'd)

| 2014 | United States Dollar RM'000 | Euro RM'000 | British Pound Sterling RM'000 | Singapore Dollar RM'000 | Japanese Yen RM'000 | Ringgit Malaysia RM'000 | Total RM'000 |
|---|---|---|---|---|---|---|---|
| **Financial Liabilities** | | | | | | | |
| Trade payables | 3,804 | 1,932 | 5,640 | 239 | 84 | 2,011 | 13,710 |
| Other payables, deposits and accruals | - | 68 | - | - | - | 4,684 | 4,752 |
| | 3,804 | 2,000 | 5,640 | 239 | 84 | 6,695 | 18,462 |
| Net financial assets/(liabilities) | 34,818 | 7,371 | 10,680 | (146) | 20 | 12,724 | 65,467 |
| Less: Net financial (assets)/ liabilities denominated in the respective entities' functional currencies | - | - | - | - | - | (12,724) | (12,724) |
| Currency Exposure | 34,818 | 7,371 | 10,680 | (146) | 20 | - | 52,743 |

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**
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**23. FINANCIAL INSTRUMENTS (CONT'D)**

(a) FINANCIAL RISK MANAGEMENT POLICIES (CONT'D)

**(i) Market Risk (Cont'd)**

*(i) Foreign Currency Risk (Cont'd)*

Foreign currency risk sensitivity analysis

The following table details the sensitivity analysis to a reasonably possible change in the foreign currencies at the end of the Relevant Periods, with all other variables held constant:-

| | | **2012** RM'000 | | **2013** RM'000 | | **2014** RM'000 |
|---|---|---|---|---|---|---|
| Effects On Profit After Taxation And Equity | | | | | | |
| United States Dollar/RM: | | | | | | |
| - strengthened by 10% | + | 2,003 | + | 2,080 | + | 2,611 |
| - weakened by 10% | - | 2,003 | - | 2,080 | - | 2,611 |
| Euro/RM: | | | | | | |
| - strengthened by 10% | + | 959 | + | 620 | + | 553 |
| - weakened by 10% | - | 959 | - | 620 | - | 553 |
| British Pound Sterling/RM: | | | | | | |
| - strengthened by 10% | + | 225 | + | 470 | + | 801 |
| - weakened by 10% | - | 225 | - | 470 | - | 801 |
| Singapore Dollar/RM: | | | | | | |
| - strengthened by 10% | - | 9 | - | # | - | 11 |
| - weakened by 10% | + | 9 | + | # | + | 11 |
| Japanese Yen/RM: | | | | | | |
| - strengthened by 10% | - | 24 | + | 16 | + | 2 |
| - weakened by 10% | + | 24 | - | 16 | - | 2 |

Note:
\# Less than RM300

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**23. FINANCIAL INSTRUMENTS (CONT'D)**

(a) FINANCIAL RISK MANAGEMENT POLICIES (CONT'D)

**(i) Market Risk (Cont'd)**

*(ii) Interest rate risk*

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's exposure to interest rate risk arises mainly from interest-bearing financial assets and liabilities. The Group's policy is to obtain the most favourable interest rates available. Any surplus funds of the Group will be placed with licensed financial institutions to generate interest income.

Information relating to the Group's exposure to the interest rate risk of the financial assets is disclosed in Note 8 to the financial statements.

Interest rate risk sensitivity analysis

The following table details the sensitivity analysis to a reasonably possible change in the interest rates at the end of the Relevant Periods, with all other variables held constant:-

| | | 2012<br>RM'000 | | 2013<br>RM'000 | | 2014<br>RM'000 |
|---|---|---|---|---|---|---|
| Effects On Profit After Taxation | | | | | | |
| Increase of 100 basis points | + | 68 | + | 64 | + | 51 |
| Decrease of 100 basis points | - | 68 | - | 64 | - | 51 |
| Effects On Equity | | | | | | |
| Increase of 100 basis points | + | 68 | + | 64 | + | 51 |
| Decrease of 100 basis points | - | 68 | - | 64 | - | 51 |

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## 23. FINANCIAL INSTRUMENTS (CONT'D)

(a) FINANCIAL RISK MANAGEMENT POLICIES (CONT'D)

### (i) Market Risk (Cont'd)

*(iii) Equity Price Risk*

The Group does not have any quoted investments and hence is not exposed to equity price risk.

### (ii) Credit Risk

The Group's exposure to credit risk, or the risk of counterparties defaulting, arises mainly from trade and other receivables. The Group manages its exposure to credit risk by the application of credit approvals, credit limits and monitoring procedures on an on-going basis. For other financial assets (including cash and bank balances), the Group minimises credit risk by dealing exclusively with high credit rating counterparties.

The Group establishes an allowance for impairment that represents its estimate of incurred losses in respect of the trade and other receivables as appropriate. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loss component established for groups of similar assets in respect of losses that have been incurred but not yet identified. Impairment is estimated by management based on prior experience and the current economic environment.

(a) Credit risk concentration profile

The Group's major concentration of credit risk relates to the trade receivables at the end of the Relevant Periods as follows:-

| | **2012** | **2013** | **2014** |
|---|---|---|---|
| Number of customers | 3 | 2 | 2 |
| Percentage | 63% | 61% | 35% |

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## 23. FINANCIAL INSTRUMENTS (CONT'D)

(a) FINANCIAL RISK MANAGEMENT POLICIES (CONT'D)

**(ii) Credit Risk (Cont'd)**

(b) Exposure to credit risk

As the Group does not hold any collateral, the maximum exposure to credit risk is represented by the carrying amount of the financial assets at the end of the Relevant Periods.

The exposure of credit risk for trade receivables by geographical region is as follows:-

| | **2012** RM'000 | **2013** RM'000 | **2014** RM'000 |
|---|---|---|---|
| Dubai | 1,126 | - | - |
| Korea | 178 | 191 | - |
| Singapore | 124 | 624 | - |
| Myanmar | 340 | - | - |
| Malaysia | 25,530 | 31,682 | 29,217 |
| Indonesia | - | - | 175 |
| | 27,298 | 32,497 | 29,392 |

(c) Ageing analysis

The ageing analysis of the Group's trade receivables at the end of the Relevant Periods is as follows:-

| 2012 | **Gross Amount** RM'000 | **Individual Impairment** RM'000 | **Carrying Value** RM'000 |
|---|---|---|---|
| Not past due | 20,695 | - | 20,695 |
| Past due: | | | |
| - less than 30 days | 5,040 | - | 5,040 |
| - 30 - 60 days | 87 | - | 87 |
| - 60 - 90 days | 1,279 | - | 1,279 |
| - 90 - 120 days | 197 | - | 197 |
| - above 120 days | - | - | - |
| | 27,298 | - | 27,298 |

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## 23. FINANCIAL INSTRUMENTS (CONT'D)

(a) FINANCIAL RISK MANAGEMENT POLICIES (CONT'D)

**(ii) Credit Risk (Cont'd)**

(c) Ageing analysis (Cont'd)

The ageing analysis of the Group's trade receivables at the end of the Relevant Periods is as follows (Cont'd):-

| 2013 | Gross Amount RM'000 | Individual Impairment RM'000 | Carrying Value RM'000 |
|---|---|---|---|
| Not past due | 21,236 | - | 21,236 |
| Past due: | | | |
| - less than 30 days | 5,702 | - | 5,702 |
| - 30 - 60 days | 2,916 | - | 2,916 |
| - 60 - 90 days | 1,929 | - | 1,929 |
| - 90 - 120 days | 714 | - | 714 |
| - above 120 days | - | - | - |
| | 32,497 | - | 32,497 |

| 2014 | Gross Amount RM'000 | Individual Impairment RM'000 | Carrying Value RM'000 |
|---|---|---|---|
| Not past due | 25,562 | - | 25,562 |
| Past due: | | | |
| - less than 30 days | 960 | - | 960 |
| - 30 - 60 days | 490 | - | 490 |
| - 60 - 90 days | 1,908 | - | 1,908 |
| - 90 - 120 days | - | - | - |
| - above 120 days | 472 | - | 472 |
| | 29,392 | - | 29,392 |

**OGPC SDN. BHD.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT 31 DECEMBER 2012, 2013 AND 2014**

## 23. FINANCIAL INSTRUMENTS (CONT'D)

(a) FINANCIAL RISK MANAGEMENT POLICIES (CONT'D)

**(ii) Credit Risk (Cont'd)**

(c) Ageing analysis (Cont'd)

*Trade receivables that are past due but not impaired*

The Group believes that no impairment allowance is necessary in respect of these trade receivables. They are substantially companies with good collection track record and no recent history of default.

*Trade receivables that are neither past due nor impaired*

A significant portion of trade receivables that are neither past due nor impaired are regular customers that have been transacting with the Group. The Group uses ageing analysis to monitor the credit quality of the trade receivables. Any receivables having significant balances past due or more than 150 days, which are deemed to have higher credit risk, are monitored individually.

**(iii) Liquidity Risk**

Liquidity risk arises mainly from general funding and business activities. The Group practises prudent risk management by maintaining sufficient cash balances and adequate working capital to meet its obligations as and when they fall due.

The following table sets out the maturity profile of the financial liabilities at the end of the Relevant Periods based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on the rates at the end of the Relevant Periods):-

| 2012 | Carrying Amount RM'000 | Contractual Undiscounted Cash Flows RM'000 | Within 1 Year RM'000 |
|---|---|---|---|
| Trade payables | 23,239 | 23,239 | 23,239 |
| Other payables, deposits and accruals | 987 | 987 | 987 |
| | 24,226 | 24,226 | 24,226 |

**OGPC SDN. BHD.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**
**AS AT 31 DECEMBER 2012, 2013 AND 2014**

## 23. FINANCIAL INSTRUMENTS (CONT'D)

(a) FINANCIAL RISK MANAGEMENT POLICIES (CONT'D)

**(iii) Liquidity Risk (Cont'd)**

| 2013 | **Carrying Amount** RM'000 | **Contractual Undiscounted Cash Flows** RM'000 | **Within 1 Year** RM'000 |
|---|---|---|---|
| Trade payables | 26,615 | 26,615 | 26,615 |
| Other payables, deposits and accruals | 3,276 | 3,276 | 3,276 |
| | 29,891 | 29,891 | 29,891 |

| 2014 | **Carrying Amount** RM'000 | **Contractual Undiscounted Cash Flows** RM'000 | **Within 1 Year** RM'000 |
|---|---|---|---|
| Trade payables | 13,710 | 13,710 | 13,710 |
| Other payables, deposits and accruals | 4,752 | 4,752 | 4,752 |
| | 18,462 | 18,462 | 18,462 |

(b) CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities within the Group will be able to maintain an optimal capital structure so as to support its businesses and maximise shareholders' value. To achieve this objective, the Group may make adjustments to the capital structure in view of changes in economic conditions, such as adjusting the amount of dividend payment, returning of capital to shareholders or issuing new shares.

**OGPC SDN. BHD.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT 31 DECEMBER 2012, 2013 AND 2014**

## 23. FINANCIAL INSTRUMENTS (CONT'D)

### (b) CAPITAL RISK MANAGEMENT (CONT'D)

The Group manages its capital based on debt-to-equity ratio that complies with debt convents and regulatory, if any. The debt-to-equity ratio is calculated as total net borrowings from financial institutions divided by total equity. There was no change in the Group's approach to capital management during the Relevant Periods.

At the end of the Relevant Periods, the Group does not have any bank borrowings. Hence, the debt-to-equity ratio is not presented as it does not provide a meaningful indicator of the risk of borrowings.

### (c) CLASSIFICATION OF FINANCIAL INSTRUMENTS

| | **2012** RM'000 | **2013** RM'000 | **2014** RM'000 |
|---|---|---|---|
| **Financial Assets** | | | |
| Loan and receivables financial assets | | | |
| Trade receivables | 27,298 | 32,497 | 29,392 |
| Other receivables and deposits | 147 | 126 | 1,160 |
| Fixed deposits with licensed banks | 9,030 | 8,596 | 6,743 |
| Cash and bank balances | 50,144 | 60,071 | 46,634 |
| | 86,619 | 101,290 | 83,929 |
| **Financial Liabilities** | | | |
| Other financial liabilities | | | |
| Trade payables | 23,239 | 26,615 | 13,710 |
| Other payables, deposits and accruals | 987 | 3,276 | 4,752 |
| | 24,226 | 29,891 | 18,462 |

### (d) FAIR VALUE INFORMATION

Other than those disclosed below, the carrying amounts of the financial assets and financial liabilities reported in the financial statements approximated their fair values due to the relatively short-term maturity of these financial instruments. The fair values are included in Level 2 of the fair value hierarchy.

**OGPC SDN. BHD.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT 31 DECEMBER 2012, 2013 AND 2014**

## 23. FINANCIAL INSTRUMENTS (CONT'D)

### (d) FAIR VALUE INFORMATION (CONT'D)

| | Fair Value Of Financial Instruments Not Carried At Fair Value Level 2 RM'000 | **Total Fair Value** RM'000 | **Carrying Amount** RM'000 |
|---|---|---|---|
| The Company | | | |
| 2012 | | | |
| Financial Liabilities | | | |
| Corporate guarantee given to licensed banks for credit facilities granted to a subsidiary | # | # | # |
| 2013 | | | |
| Financial Liabilities | | | |
| Corporate guarantee given to licensed banks for credit facilities granted to a subsidiary | # | # | # |
| 2014 | | | |
| Financial Liabilities | | | |
| Corporate guarantee given to licensed banks for credit facilities granted to a subsidiary | - | - | - |

\# The Company provides corporate guarantee to licensed banks for credit facilities granted to a subsidiary. The fair value of the financial corporate guarantee is negligible as the probability of the subsidiary defaulting on the financing facilities is remote.

**OGPC SDN. BHD.**

## STATEMENT BY DIRECTORS

We, Azman Bin Karim and Khoo Kok Seng, being two of the directors of OGPC Sdn. Bhd., state that, in the opinion of the directors, the consolidated financial statements set out on pages 3 to 56 are drawn up in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and Prospectus Guidelines - Equity issued by the Securities Commission Malaysia so as to give a true and fair view of the consolidated financial position of the Group as at 31 December 2012, 2013 and 2014 and of its financial performance and cash flows for the financial years ended on those dates.

**Azman Bin Karim**

**Khoo Kok Seng**

Date: 11 JAN 2016

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**Crowe Horwath** AF 1018
*Chartered Accountants*
Member Crowe Horwath International

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**Reporting Accountants' Letter on the Pro Forma Consolidated Statement of Financial Position (Prepared for the purpose of inclusion in this Circular)**

Date: 1 1 JAN 2016

The Board of Directors
**Dagang NeXchange Berhad**
Tower 3, Avenue 5,
The Horizon, Bangsar South,
No. 8, Jalan Kerinchi,
59200 Kuala Lumpur.

Dear Sirs

**DAGANG NeXCHANGE BERHAD ("DNeX")**
**REPORT ON THE COMPILATION OF PRO FORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2014**

We have completed our assurance engagement to report on the compilation of the Pro Forma Consolidated Statement of Financial Position of DNeX and its subsidiaries ("DNeX Group" or "Group") as at 31 December 2014, together with the accompanying notes thereto. The Pro Forma Consolidated Statement of Financial Position, as set out in the accompanying statements (which we have stamped for the purpose of identification), has been compiled by the Board of Directors of DNeX ("Board") for the inclusion in the Circular to Shareholders of DNeX ("Circular") in connection with the following:

(i) Proposed renounceable rights issue of 465,146,809 new DNeX Shares of RM0.20 each in DNeX ("Share(s)" or "DNeX Share(s)") ("Rights Share(s)") together with 465,146,809 new free detachable warrants ("Warrant(s)") at an issue price of RM0.21 for each Rights Share on the basis of three (3) Rights Shares together with three (3) Warrants for every five (5) existing DNeX Shares held as at an entitlement date to be determined later ("Entitlement Date") ("Proposed Rights Issue");

(ii) Proposed special issue of 130,000,000 Shares together with 65,000,000 Warrants on the basis of one (1) Warrant for every two (2) special issue shares at an issue price of RM0.22 per Share ("Special Issue Share(s)") ("Proposed Special Issue");

(iii) Proposed Acquisition of OGPC Sdn Bhd ("OGPC") and OGPC O & G Sdn Bhd ("OGPCOG") (collectively, referred to as "OGPC Group") for RM170,000,000 to be satisfied by partial cash consideration of RM83,000,000 and remaining RM87,000,000 via issuance of 362,500,000 new DNeX Shares with 181,250,000 Warrants at an issue price of RM0.24 per DNeX Share (Consideration Shares") on the basis of one (1) Warrant for every two (2) Consideration Shares issued ("Proposed Acquisitions"); and

(iv) Proposed establishment of an Employee's Share Option Scheme ("ESOS") of up to five percent (5%) of the issued and paid-up capital of DNeX ("Proposed ESOS").

(Collectively, referred to as the "Proposals").



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The applicable criteria on the basis of which the Board has compiled the Pro Forma Consolidated Statement of Financial Position are described in Note 1 of the Pro Forma Consolidated Statement of Financial Position.

The Pro Forma Consolidated Statement of Financial Position has been compiled by the Board, for illustrative purposes only, to illustrate the effect of the completed Proposals as described in Note 1 of the Pro Forma Consolidated Statement of Financial Position, on DNeX's financial position as at 31 December 2014. As part of this process, information about DNeX's and OGPC Group financial position have been extracted by the Board from the following:

- DNeX's audited consolidated financial statements for the financial year ended 31 December ("FYE") 2014, on which the audit report was dated 24 February 2015; and
- Accountants' Report on OGPC Group for the FYE 2014 which was prepared in compliance with Malaysian Financial Reporting Standards ("MFRSs") and International Financial Reporting Standards ("IFRSs").

**THE BOARD OF DIRECTORS' RESPONSIBILITIES**

The Board is responsible for compiling the Pro Forma Consolidated Statement of Financial Position on the basis as described in Note 1 of the Pro Forma Consolidated Statement of Financial Position.

**REPORTING ACCOUNTANTS' RESPONSIBILITIES**

Our responsibility is to express an opinion about whether the Pro Forma Consolidated Statement of Financial Position has been compiled, in all material respects, by the Board on the basis as described in Note 1 of the Pro Forma Consolidated Statement of Financial Position.

We conducted our engagement in accordance with the **International Standard on Assurance Engagement (ISAE) 3420, *Assurance Engagement to Report on the Compilation of Pro Forma Financial Information included in a Prospectus***, issued and adopted by the Malaysian Institute of Accountants. This standard requires that we comply with ethical requirements and plan and perform procedures to obtain reasonable assurance about whether the Board has compiled, in all material respects, the Pro Forma Consolidated Statement of Financial Position on the basis of the applicable criteria.

For purposes of this engagement, we are not responsible for updating or reissuing any reports or opinion on any historical financial information used in compiling the Pro Forma Consolidated Statement of Financial Position, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the Pro Forma Consolidated Statement of Financial Position. In providing this opinion, we do not accept any responsibility for such reports or opinions beyond that owed to those to whom those reports or opinions where addressed by us at the dates of their issue.

The purpose of the Pro Forma Consolidated Statement of Financial Position included in the Circular is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the entity as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the event or transaction at 31 December 2014 would have been as presented.

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A reasonable assurance engagement to report on whether the Pro Forma Consolidated Statement of Financial Position has been compiled, in all material respects, on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the Board in the compilation of the Pro Forma Consolidated Statement of Financial Position provide a reasonable basis for presenting the significant effects directly attributable to the events or transactions, and to obtain sufficient appropriate evidence about whether:

- The related pro forma adjustments give appropriate effect to those criteria; and
- The Pro Forma Consolidated Statement of Financial Position reflect the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on our judgement, having regard to our understanding of the nature of DNeX, the events or transactions in respect of which the Pro Forma Consolidated Statement of Financial Position has been compiled, and other relevant engagement circumstances. The engagement also involves evaluating the overall presentation of the Pro Forma Consolidated Statement of Financial Position.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

**OPINION**

In our opinion, the Pro Forma Consolidated Statement of Financial Position has been compiled, in all material respects, on the basis of the applicable criteria.

**OTHER MATTER**

This letter has been prepared solely for the purpose of inclusion in the Circular in connection with the Proposals. As such, this letter should not be used for any other purpose without our prior written consent. Neither the firm nor any member or employee of the firm undertakes responsibility arising in any way whatsoever to any party in respect of this letter contrary to the aforesaid purpose.

Yours faithfully,

**Crowe Horwath**
Firm No: AF 1018
Chartered Accountants
Kuala Lumpur

**Chan Kuan Chee**
Approval No: 2271/10/17 (J)
Chartered Accountant

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## DAGANG NeXCHANGE BERHAD ("DNeX")
## PRO FORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2014
## MAXIMUM SCENARIO

| | Note | DNeX Audited as at 31 December 2014 RM'000 | Adjustments RM'000 | Pro Forma I After Proposed Rights Issue with Warrants RM'000 | Adjustments RM'000 | Pro Forma II After Pro Forma I and Proposed Special Issue with Warrants RM'000 | Adjustments RM'000 | Pro Forma III After Pro Forma II and Proposed Acquisition with Warrants RM'000 | Adjustments RM'000 | Pro Forma IV After Pro Forma III and full exercise of the Warrants RM'000 | Adjustments RM'000 | Pro Forma V After Pro Forma IV and Proposed ESOS Options granted, vested and full exercise of the ESOS RM'000 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **ASSETS** | | | | | | | | | | | | |
| **NON-CURRENT ASSETS** | | | | | | | | | | | | |
| Plant and equipment | 2 | 14,143 | | 14,143 | | 14,143 | 7,703 | 21,846 | | 21,846 | | 21,846 |
| Goodwill on consolidation | 3 | - | | - | | - | 114,991 | 114,991 | | 114,991 | | 114,991 |
| Intangible assets | | 2,948 | | 2,948 | | 2,948 | | 2,948 | | 2,948 | | 2,948 |
| Trade and other receivables | | 24,577 | | 24,577 | | 24,577 | | 24,577 | | 24,577 | | 24,577 |
| | | 41,668 | | 41,668 | | 41,668 | | 164,362 | | 164,362 | | 164,362 |
| **CURRENT ASSETS** | | | | | | | | | | | | |
| Receivables, deposits and prepayments | 4 | 57,838 | | 57,838 | | 57,838 | 30,552 | 88,390 | | 88,390 | | 88,390 |
| Inventories | 5 | - | | - | | - | 5,455 | 5,455 | | 5,455 | | 5,455 |
| Tax recoverable | 6 | 1,985 | | 1,985 | | 1,985 | 179 | 2,164 | | 2,164 | | 2,164 |
| Cash and cash equivalents | 7 | 70,828 | 97,681 | 168,509 | 28,600 | 197,109 | (34,423) | 162,686 | 355,698 | 518,384 | 25,068 | 543,452 |
| | | 130,651 | | 228,332 | | 256,932 | | 258,695 | | 614,393 | | 639,461 |
| **TOTAL ASSETS** | | 172,319 | | 270,000 | | 298,600 | | 423,057 | | 778,755 | | 803,823 |

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## DAGANG NeXCHANGE BERHAD ("DNeX")
## PRO FORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2014 (CONT'D)
## MAXIMUM SCENARIO

| | Note | DNeX Audited as at 31 December 2014 RM'000 | Adjustments RM'000 | Pro Forma I After Proposed Rights Issue with Warrants RM'000 | Adjustments RM'000 | Pro Forma II After Pro Forma I and Proposed Special Issue with Warrants RM'000 | Adjustments RM'000 | Pro Forma III After Pro Forma II and Proposed Acquisition with Warrants RM'000 | Adjustments RM'000 | Pro Forma IV After Pro Forma III and full exercise of the Warrants RM'000 | Adjustments RM'000 | Pro Forma V After Pro Forma IV and Proposed ESOS Options granted, vested and full exercise of the ESOS RM'000 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **EQUITY AND LIABILITIES** | | | | | | | | | | | | |
| **EQUITY** | | | | | | | | | | | | |
| Share capital | 8 | 155,049 | 93,029 | 248,078 | 26,000 | 274,078 | 72,500 | 346,578 | 142,279 | 488,857 | 24,443 | 513,300 |
| Reserves | | | | | | | | | | | | |
| - Share premium | 9 | - | 2,279 | 2,279 | 2,307 | 4,586 | 8,913 | 13,499 | 216,872 | 230,371 | 1,847 | 232,218 |
| - Warrants reserve | 10 | - | 2,373 | 2,373 | 293 | 2,666 | 787 | 3,453 | (3,453) | - | | - |
| - ESOS reserve | 11 | - | | - | | - | | - | | - | - | - |
| - Accumulated losses | 12 | (68,859) | - | (68,859) | | (68,859) | | (68,859) | | (68,859) | (1,222) | (70,081) |
| **TOTAL EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY** | | 86,190 | | 183,871 | | 212,471 | | 294,671 | | 650,369 | | 675,437 |
| **NON-CONTROLLING INTERESTS** | | 21,996 | | 21,996 | | 21,996 | | 21,996 | | 21,996 | | 21,996 |
| **TOTAL EQUITY** | | 108,186 | | 205,867 | | 234,467 | | 316,667 | | 672,365 | | 697,433 |
| **NON-CURRENT LIABILITIES** | | | | | | | | | | | | |
| Deferred tax liabilities | 13 | 2,796 | | 2,796 | | 2,796 | 30 | 2,826 | | 2,826 | | 2,826 |
| Borrowings | | 20,036 | | 20,036 | | 20,036 | | 20,036 | | 20,036 | | 20,036 |
| Deferred income | | 4,056 | | 4,056 | | 4,056 | | 4,056 | | 4,056 | | 4,056 |
| | | 26,888 | | 26,888 | | 26,888 | | 26,918 | | 26,918 | | 26,918 |
| **CURRENT LIABILITIES** | | | | | | | | | | | | |
| Trade and other payables | 14 | 17,312 | | 17,312 | | 17,312 | 18,462 | 35,774 | | 35,774 | | 35,774 |
| Borrowings | | 18,494 | | 18,494 | | 18,494 | | 18,494 | | 18,494 | | 18,494 |
| Tax payable | 15 | 1,439 | | 1,439 | | 1,439 | 2,765 | 4,204 | | 4,204 | | 4,204 |
| Dividend payable | 16 | - | | - | | - | 21,000 | 21,000 | | 21,000 | | 21,000 |
| | | 37,245 | | 37,245 | | 37,245 | | 79,472 | | 79,472 | | 79,472 |
| **TOTAL LIABILITIES** | | 64,133 | | 64,133 | | 64,133 | | 106,390 | | 106,390 | | 106,390 |
| **TOTAL EQUITY AND LIABILITIES** | | 172,319 | | 270,000 | | 298,600 | | 423,057 | | 778,755 | | 803,823 |

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## DAGANG NeXCHANGE BERHAD ("DNeX")
## PRO FORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2014 (CONT'D)
## MAXIMUM SCENARIO

| | Note | DNeX Audited as at 31 December 2014 RM'000 | Adjustments RM'000 | Pro Forma I After Proposed Rights Issue with Warrants RM'000 | Adjustments RM'000 | Pro Forma II After Pro Forma I and Proposed Special Issue with Warrants RM'000 | Adjustments RM'000 | Pro Forma III After Pro Forma II and Proposed Acquisition with Warrants RM'000 | Adjustments RM'000 | Pro Forma IV After Pro Forma III and full exercise of the Warrants RM'000 | Adjustments RM'000 | Pro Forma V After Pro Forma IV and Proposed ESOS Options granted, vested and full exercise of the ESOS RM'000 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Number of ordinary shares of RM0.20 each ('000) | 8 | 775,245 | 465,146 | 1,240,391 | 130,000 | 1,370,391 | 362,500 | 1,732,891 | 711,397 | 2,444,288 | 122,214 | 2,566,502 |
| Net assets/(liabilities) ("NA/(NL)") (RM'000) | | 108,186 | | 205,867 | | 234,467 | | 316,667 | | 672,365 | | 697,433 |
| Net tangible assets ("NTA") (RM'000) | | 105,238 | | 202,919 | | 231,519 | | 198,728 | | 554,426 | | 579,494 |
| NA/(NL) per ordinary share (RM) | | 0.14 | | 0.17 | | 0.17 | | 0.18 | | 0.28 | | 0.27 |
| NTA per ordinary share (RM) | | 0.14 | | 0.16 | | 0.17 | | 0.11 | | 0.23 | | 0.23 |
| EPS (Sen) | | | | | | | | | | | | |
| - Basic | | 1.58 | | 0.98 | | 0.89 | | 0.70 | | 0.50 | | 0.48 |
| - Diluted | | n/a | | 0.72 | | 0.85 | | 0.64 | | 0.50 | | 0.48 |
| Borrowings | | 38,530 | | 38,530 | | 38,530 | | 38,530 | | 38,530 | | 38,530 |
| Debt to equity ratio | | 0.36 | | 0.19 | | 0.16 | | 0.12 | | 0.06 | | 0.06 |

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## DAGANG NeXCHANGE BERHAD ("DNeX")
## PRO FORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2014 (CONT'D)
## MINIMUM SCENARIO

| | Note | DNeX Audited as at 31 December 2014 RM'000 | Adjustments RM'000 | Pro Forma I After Proposed Rights Issue with Warrants RM'000 | Adjustments RM'000 | Pro Forma II After Pro Forma I and Proposed Special Issue with Warrants RM'000 | Adjustments RM'000 | Pro Forma III After Pro Forma II and Proposed Acquisition with Warrants RM'000 | Adjustments RM'000 | Pro Forma IV After Pro Forma III and no Warrants exercised RM'000 | Adjustments RM'000 | Pro Forma V After Pro Forma IV and Proposed ESOS Options granted, vested and full exercise of the ESOS RM'000 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **ASSETS** | | | | | | | | | | | | |
| **NON-CURRENT ASSETS** | | | | | | | | | | | | |
| Plant and equipment | 2 | 14,143 | | 14,143 | | 14,143 | 7,703 | 21,846 | | 21,846 | | 21,846 |
| Goodwill on consolidation | 3 | - | | - | | - | 114,991 | 114,991 | | 114,991 | | 114,991 |
| Intangible assets | | 2,948 | | 2,948 | | 2,948 | | 2,948 | | 2,948 | | 2,948 |
| Trade and other receivables | | 24,577 | | 24,577 | | 24,577 | | 24,577 | | 24,577 | | 24,577 |
| | | 41,668 | | 41,668 | | 41,668 | | 164,362 | | 164,362 | | 164,362 |
| **CURRENT ASSETS** | | | | | | | | | | | | |
| Receivables, deposits and prepayments | 4 | 57,838 | | 57,838 | | 57,838 | 30,552 | 88,390 | | 88,390 | | 88,390 |
| Inventories | 5 | - | | - | | - | 5,455 | 5,455 | | 5,455 | | 5,455 |
| Tax recoverable | 6 | 1,985 | | 1,985 | | 1,985 | 179 | 2,164 | | 2,164 | | 2,164 |
| Cash and cash equivalents | 7 | 70,828 | 97,681 | 168,509 | 28,600 | 197,109 | (34,423) | 162,686 | | 162,686 | 17,772 | 180,458 |
| | | 130,651 | | 228,332 | | 256,932 | | 258,695 | | 258,695 | | 276,467 |
| **TOTAL ASSETS** | | 172,319 | | 270,000 | | 298,600 | | 423,057 | | 423,057 | | 440,829 |

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## DAGANG NeXCHANGE BERHAD ("DNeX")
## PRO FORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2014 (CONT'D)
## MINIMUM SCENARIO

| | Note | DNeX Audited as at 31 December 2014 RM'000 | Adjustments RM'000 | Pro Forma I After Proposed Rights Issue with Warrants RM'000 | Adjustments RM'000 | Pro Forma II After Pro Forma I and Proposed Special Issue with Warrants RM'000 | Adjustments RM'000 | Pro Forma III After Pro Forma II and Proposed Acquisition with Warrants RM'000 | Adjustments RM'000 | Pro Forma IV After Pro Forma III and no Warrants exercised RM'000 | Adjustments RM'000 | Pro Forma V After Pro Forma IV and Proposed ESOS Options granted, vested and full exercise of the ESOS RM'000 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **EQUITY AND LIABILITIES** | | | | | | | | | | | | |
| **EQUITY** | | | | | | | | | | | | |
| Share capital | 8 | 155,049 | 93,029 | 248,078 | 26,000 | 274,078 | 72,500 | 346,578 | | 346,578 | 17,329 | 363,907 |
| Reserves | | | | | | | | | | | | |
| - Share premium | 9 | - | 2,279 | 2,279 | 2,307 | 4,586 | 8,913 | 13,499 | | 13,499 | 1,309 | 14,808 |
| - Warrants reserve | 10 | - | 2,373 | 2,373 | 293 | 2,666 | 787 | 3,453 | | 3,453 | | 3,453 |
| - ESOS reserve | 11 | - | | - | | - | | - | | - | - | - |
| - Accumulated losses | 12 | (68,859) | - | (68,859) | | (68,859) | | (68,859) | | (68,859) | (866) | (69,725) |
| **TOTAL EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY** | | 86,190 | | 183,871 | | 212,471 | | 294,671 | | 294,671 | | 312,443 |
| **NON-CONTROLLING INTERESTS** | | 21,996 | | 21,996 | | 21,996 | | 21,996 | | 21,996 | | 21,996 |
| **TOTAL EQUITY** | | 108,186 | | 205,867 | | 234,467 | | 316,667 | | 316,667 | | 334,439 |
| **NON-CURRENT LIABILITIES** | | | | | | | | | | | | |
| Deferred tax liabilities | 13 | 2,796 | | 2,796 | | 2,796 | 30 | 2,826 | | 2,826 | | 2,826 |
| Borrowings | | 20,036 | | 20,036 | | 20,036 | | 20,036 | | 20,036 | | 20,036 |
| Deferred income | | 4,056 | | 4,056 | | 4,056 | | 4,056 | | 4,056 | | 4,056 |
| | | 26,888 | | 26,888 | | 26,888 | | 26,918 | | 26,918 | | 26,918 |
| **CURRENT LIABILITIES** | | | | | | | | | | | | |
| Trade and other payables | 14 | 17,312 | | 17,312 | | 17,312 | 18,462 | 35,774 | | 35,774 | | 35,774 |
| Borrowings | | 18,494 | | 18,494 | | 18,494 | | 18,494 | | 18,494 | | 18,494 |
| Tax payable | 15 | 1,439 | | 1,439 | | 1,439 | 2,765 | 4,204 | | 4,204 | | 4,204 |
| Dividend payable | 16 | - | | - | | - | 21,000 | 21,000 | | 21,000 | | 21,000 |
| | | 37,245 | | 37,245 | | 37,245 | | 79,472 | | 79,472 | | 79,472 |
| **TOTAL LIABILITIES** | | 64,133 | | 64,133 | | 64,133 | | 106,390 | | 106,390 | | 106,390 |
| **TOTAL EQUITY AND LIABILITIES** | | 172,319 | | 270,000 | | 298,600 | | 423,057 | | 423,057 | | 440,829 |

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## DAGANG NeXCHANGE BERHAD ("DNeX")
## PRO FORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2014 (CONT'D)
## MINIMUM SCENARIO

| | Note | DNeX Audited as at 31 December 2014 RM'000 | Adjustments RM'000 | Pro Forma I After Proposed Rights Issue with Warrants RM'000 | Adjustments RM'000 | Pro Forma II After Pro Forma I and Proposed Special Issue with Warrants RM'000 | Adjustments RM'000 | Pro Forma III After Pro Forma II and Proposed Acquisition with Warrants RM'000 | Adjustments RM'000 | Pro Forma IV After Pro Forma III and no Warrants exercised RM'000 | Adjustments RM'000 | Pro Forma V After Pro Forma IV and Proposed ESOS Options granted, vested and full exercise of the ESOS RM'000 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Number of ordinary shares of RM0.20 each ('000) | 8 | 775,245 | 465,146 | 1,240,391 | 130,000 | 1,370,391 | 362,500 | 1,732,891 | | 1,732,891 | 86,645 | 1,819,536 |
| Net assets/(liabilities) ("NA/(NL)") (RM'000) | | 108,186 | | 205,867 | | 234,467 | | 316,667 | | 316,667 | | 334,439 |
| Net tangible assets ("NTA") (RM'000) | | 105,238 | | 202,919 | | 231,519 | | 198,728 | | 198,728 | | 216,500 |
| NA/(NL) per ordinary share (RM) | | 0.14 | | 0.17 | | 0.17 | | 0.18 | | 0.18 | | 0.18 |
| NTA per ordinary share (RM) | | 0.14 | | 0.16 | | 0.17 | | 0.11 | | 0.11 | | 0.12 |
| EPS (Sen) | | | | | | | | | | | | |
| - Basic | | 1.58 | | 0.98 | | 0.89 | | 0.70 | | 0.70 | | 0.67 |
| - Diluted | | n/a | | 0.72 | | 0.85 | | 0.64 | | 0.50 | | 0.48 |
| Borrowings | | 38,530 | | 38,530 | | 38,530 | | 38,530 | | 38,530 | | 38,530 |
| Debt to equity ratio | | 0.36 | | 0.19 | | 0.16 | | 0.12 | | 0.12 | | 0.12 |

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## DAGANG NeXCHANGE BERHAD ("DNeX")
## NOTES TO THE PRO FORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2014

### 1. BASIS OF PREPARATION

The Pro Forma Consolidated Statement of Financial Position of DNeX have been prepared based on audited consolidated statement of financial position of DNeX as at 31 December 2014 had the Proposed Rights Issue, Proposed Special Issue, Proposed Acquisitions and Proposed ESOS (as defined above) and full exercise of the Warrants issued pursuant to the Proposed Rights Issue, Proposed Special Issue and Proposed Acquisitions as described in Note 1(a) and 1(b) below, been effected on that date. The Pro Forma Consolidated Statement of Financial Position of DNeX have been properly compiled on the basis stated using financial statements prepared in accordance with Malaysian Financial Reporting Standards ("MFRSs") in Malaysia, and in a manner consistent with both the format of the financial statements and the accounting policies of DNeX.

The Pro Forma Consolidated Statement of Financial Position has been prepared solely for illustrative purposes, to show the effects of:

(i) The Proposed Rights Issue, Proposed Special Issue, Proposed Acquisitions and Proposed ESOS to raise gross proceeds of RM507,047,000 for Maximum Scenario (Assuming all entitled shareholders to exercise in full for their entitlements of Warrants and all eligible persons who meet the criteria of eligibility for participation in the Proposed ESOS as set out in the by-laws governing the Proposed ESOS to be adopted by DNeX prior to the implementation of the Proposed ESOS ("Eligible Person(s)") ("By-Laws") to subscribe their ESOS options ("ESOS Option(s)"); and

(ii) The Proposed Rights Issue, Proposed Special Issue, Proposed Acquisitions and Proposed ESOS to raise gross proceeds of RM144,053,000 for Minimum Scenario (Assuming all Eligible Person to subscribe in full for their entitlements ESOS Options and none of Warrants are exercised).

The details of maximum and minimum scenarios are set out below:-

**(a) Maximum Scenario**

The maximum scenario assumes the following:-

(i) Full subscription and issuance of 456,146,809 Rights Shares with 465,146,809 Warrants at an issue price of RM0.21 per Rights Share to raise gross proceeds of RM97,681,000 on the basis of three (3) Rights Share together with three (3) Warrants for every five (5) existing DNeX Shares held. The warrants reserve assumes the fair value of the Warrants of RM0.01 each, being the values determined and used to allocate the proceeds of the Rights Issue;

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**DAGANG NeXCHANGE BERHAD ("DNeX")**
**NOTES TO THE PRO FORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2014**

**1. BASIS OF PREPARATION (CONT'D)**

**(a) Maximum Scenario (Cont'd)**

The maximum scenario assumes the following (Cont'd):-

(ii) Proposed Special Issue of 130,000,000 Shares with 65,000,000 Warrants on the basis of one (1) Warrant for every two (2) Special Issue Shares at an issue price of RM0.22 per Share to raise gross proceeds of RM28,600,000. The warrants reserve assumes the fair value of the Warrants of RM0.01 each, being the values determined and used to allocate the proceeds of the Special Issue;

(iii) The Proposed Acquisitions involves the acquisition of the OGPC Group as follows:

(a) The Proposed OGPC Acquisition involves the acquisition of 500,000 ordinary shares of RM1.00 each representing 100% of the issued and paid-up capital of OGPC for a purchase consideration of RM164,636,700 to be satisfied via partial cash consideration of RM80,381,448 and remaining via issuance of 351,063,550 new DNeX Shares with 175,531,775 Warrants at an issue price of RM0.24 per Share on the basis of one (1) Warrant for every two (2) new DNeX Shares issued for the balance amount of RM84,255,252; and

(b) The Proposed OGPCOG Acquisition involves the acquisition of 520,000 ordinary shares of RM1.00 each representing 52% of the issued and paid-up capital of OGPCOG for a purchase consideration of RM5,363,300 to be satisfied via partial cash consideration of RM2,618,552 and remaining via issuance of 11,436,450 new DNeX Shares with 5,718,225 Warrants at an issue price of RM0.24 per Share on the basis of one (1) Warrant for every two (2) new DNeX Shares issued for the balance amount of RM2,744,748.

The warrants reserve assumes the fair value of the Warrants of RM0.01 each, being the values determined and used to allocate the issuance of new DNeX Shares. It also incorporates the effects of estimated expenses of RM4,800,000 in relation to the Proposals; and

(iv) The Proposed ESOS of up to five percent (5%) of the issued and paid-up capital of DNeX (122,214,415 ESOS Options) to Eligible Persons. The option granted under the Proposed ESOS shall entitle the Entitled Persons to subscribe for new DNeX Shares at a pre-determined price ("ESOS Options").

The ESOS reserve assumes the fair value of the ESOS Options of RM0.01 each of the five percent (5%) of the issued and paid-up capital.

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**DAGANG NeXCHANGE BERHAD ("DNeX")**
**NOTES TO THE PRO FORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2014**

**1. BASIS OF PREPARATION (CONT'D)**

**(b) Minimum Scenario**

The minimum scenario assumes the following:

(i) Full subscription and issuance of 456,146,809 Rights Shares with 465,146,809 Warrants at an issue price of RM0.21 per Rights Share to raise gross proceeds of RM97,681,000 on the basis of three (3) Rights Share together with three (3) Warrants for every five (5) existing DNeX Shares held. The warrants reserve assumes the fair value of the Warrants of RM0.01 each, being the values determined and used to allocate the proceeds of the Rights Issue;

(ii) Proposed Special Issue of 130,000,000 Shares with 65,000,000 Warrants on the basis of one (1) Warrant for every two (2) Special Issue Shares at an issue price of RM0.22 per Share to raise gross proceeds of RM28,600,000. The warrants reserve assumes the fair value of the Warrants of RM0.01 each, being the values determined and used to allocate the proceeds of the Special Issue;

(iii) The Proposed Acquisitions involves the acquisition of the OGPC Group as follows:

(a) The Proposed OGPC Acquisition involves the acquisition of 500,000 ordinary shares of RM1.00 each representing 100% of the issued and paid-up capital of OGPC for a purchase consideration of RM164,636,700 to be satisfied via partial cash consideration of RM80,381,448 and remaining via issuance of 351,063,550 new DNeX Shares with 175,531,775 Warrants at an issue price of RM0.24 per Share on the basis of one (1) Warrant for every two (2) new DNeX Shares issued for the balance amount of RM84,255,252; and

(b) The Proposed OGPCOG Acquisition involves the acquisition of 520,000 ordinary shares of RM1.00 each representing 52% of the issued and paid-up capital of OGPCOG for a purchase consideration of RM5,363,300 to be satisfied via partial cash consideration of RM2,618,552 and remaining via issuance of 11,436,450 new DNeX Shares with 5,718,225 Warrants at an issue price of RM0.24 per Share on the basis of one (1) Warrant for every two (2) new DNeX Shares issued for the balance amount of RM2,744,748.

The warrants reserve assumes the fair value of the Warrants of RM0.01 each, being the values determined and used to allocate the issuance of new DNeX Shares. It also incorporates the effects of estimated expenses of RM4,800,000 in relation to the Proposals; and

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**DAGANG NeXCHANGE BERHAD ("DNeX")**
**NOTES TO THE PRO FORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2014**

**1. BASIS OF PREPARATION (CONT'D)**

**(b) Minimum Scenario (Cont'd)**

The minimum scenario assumes the following (Cont'd):

(iv) The Proposed ESOS of up to five percent (5%) of the issued and paid-up capital of DNeX (86,644,574 ESOS Options) to Eligible Persons. The option granted under the Proposed ESOS shall entitle the Entitled Persons to subscribe for new DNeX Shares at a pre-determined price ("ESOS Options").

The ESOS reserve assumes the fair value of the ESOS Options of RM0.01 each of the five percent (5%) of the issued and paid-up capital.

The latest participation date ("LPD") prior to the issuance of the Pro Forma Consolidated Statement of Financial Position for the inclusion in the Circular of DNeX was on 14 December 2015.

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**DAGANG NeXCHANGE BERHAD ("DNeX")**
**NOTES TO THE PRO FORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2014**

## 1. BASIS OF PREPARATION (CONT'D)

### 1.1 Pro Forma I

The full subscription of 465,146,809 Rights Shares under maximum and minimum scenarios would give rise to an increase in the issued and paid-up capital of DNeX of approximately RM93,029,000. Share premium will increase by RM2,279,000 to RM2,279,000. The full subscription of 465,146,809 Rights Shares will generate total gross cash proceeds of approximately RM97,681,000.

The Rights Shares and Warrants are recognised at their fair values. The fair values of the Rights Shares and Warrants were proportionately adjusted to their issued price of RM0.21 per Rights Share.

The fair value of the warrants of RM0.01 per Warrant is determined using the "American-Binomial Option" pricing model based on the following key assumptions:

| | |
|---|---|
| Risk free interest rate* | 3.74% |
| Expected volatility of DNeX's Share price^ | 26.01% |

* Source : Bursa Malaysia Bonds Sdn Bhd
^ Source : Bursa Malaysia Sdn Bhd

The 465,146,809 Warrants under maximum and minimum scenarios will generate a total of approximately RM2,373,000 warrants reserve with the fair value of the Warrants of RM0.0051 per Warrant respectively.

### 1.2 Pro Forma II

The 130,000,000 Special Issue Shares under maximum and minimum scenarios will give rise to an increase in the issued and paid-up capital of DNeX of RM26,000,000 respectively. Share premium will increase by RM2,307,000 to RM4,586,000. The Proposed Special Issue will generate total gross cash proceeds of RM28,600,000.

The Special Issue Shares and Warrants are recognised at their fair values. The fair values of the Special Issue Shares and Warrants were proportionately adjusted to their issued price of RM0.22 per Share.

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**DAGANG NeXCHANGE BERHAD ("DNeX")**
**NOTES TO THE PRO FORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2014**

## 1. BASIS OF PREPARATION (CONT'D)

### 1.2 Pro Forma II (Cont'd)

The fair value of the warrants of RM0.01 per Warrant is determined using the "American-Binomial Option" pricing model based on the following key assumptions:

| | |
|---|---|
| Risk free interest rate* | 3.74% |
| Expected volatility of DNeX's Share price^ | 26.01% |

* Source : Bursa Malaysia Bonds Sdn Bhd
^ Source : Bursa Malaysia Sdn Bhd

The 65,000,000 Warrants under maximum and minimum scenarios will generate a total of RM293,000 warrants reserve with the fair value of the Warrants of RM0.0045 per Warrant respectively.

### 1.3 Pro Forma III

The Proposed Acquisitions of the 100% equity interest in OGPC and 52% equity interest in OGPCOG at a Purchase Consideration to be satisfied via the cash consideration and the issuance of new DNeX Shares as disclosed in Sections 1(a)(iii) and 1(b)(iii) respectively are as follows:

| Consideration | RM |
|---|---|
| Cash consideration | 83,000,000 |
| New DNeX Shares | 87,000,000 |
| **Total Purchase Consideration** | **170,000,000** |

Upon completion of the Proposed Acquisitions, OGPC Group will be the wholly-owned subsidiaries of DNeX.

The Proposed Acquisitions would give rise to an increase in the issued and paid-up capital of DNeX of RM72,500,000 for both maximum and minimum scenarios respectively. Share premium will increase by RM8,913,000 to RM13,499,000 after netting off against estimated expenses of RM4,800,000. The new DNeX Shares and Warrants are recognised at their fair values. The fair values of the new DNeX Shares and Warrants were proportionately adjusted to their issued price of RM0.24 per Share.

The fair value of the warrants of RM0.01 per Warrant is determined using the "American-Binomial Option" pricing model based on the following key assumptions:

| | |
|---|---|
| Risk free interest rate* | 3.74% |
| Expected volatility of DNeX's Share price^ | 26.01% |

* Source : Bursa Malaysia Bonds Sdn Bhd
^ Source : Bursa Malaysia Sdn Bhd

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**DAGANG NeXCHANGE BERHAD ("DNeX")**
**NOTES TO THE PRO FORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2014**

**1. BASIS OF PREPARATION (CONT'D)**

**1.3 Pro Forma III (Cont'd)**

The 181,250,000 Warrants under maximum and minimum scenarios will generate a total of approximately RM787,000 warrants reserve with the fair value of the Warrants of RM0.0049 per Warrant respectively.

**1.4 Pro Forma IV**

The full exercise of 711,396,809 Warrants under maximum scenario will generate total cash proceeds of approximately RM355,698,000. The exercise price of RM0.50 per Warrant represents a premium of RM0.2721 to the theoretical ex-rights price of DNeX Shares of RM0.2279 based on five (5)-day volume weighted average market price up to LPD of RM0.2386. Pursuant to the full exercise of the 711,396,809 Warrants, 711,396,809 new DNeX Shares will be issued and this will increase the issued and paid-up capital and share premium account of DNeX by approximately RM142,279,000 and RM216,872,000 respectively. The amount of approximately RM3,453,000 of the warrants reserve will be transferred to share premium.

None of the Warrants are exercised under minimum scenario.

**1.5 Pro Forma V**

The fair value of the ESOS Options of RM0.01 per Share Option is determined using the same assumptions as defined in the warrants.

The granting and vesting of the ESOS Options of approximately RM1,222,000 under maximum scenario will be recognised in accumulated losses. The full exercise of the ESOS Options will generate total cash proceeds of approximately RM25,068,000. Pursuant to the full exercise of the ESOS Options, 122,214,415 new DNeX Shares will be issued and this will increase the issued and paid-up capital and share premium account of DNeX by approximately RM24,443,000 and RM1,847,000 respectively.

The granting and vesting of the ESOS Options of RM866,000 under minimum scenario will be recognised in accumulated losses. The full exercise of the ESOS Options will generate total cash proceeds of approximately RM17,772,000. Pursuant to the full exercise of the ESOS Options, 86,644,574 new DNeX Shares will be issued and this will increase the issued and paid-up capital and share premium account of DNeX by approximately RM17,329,000 and RM1,309,000 respectively.

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**DAGANG NeXCHANGE BERHAD ("DNeX")**
**NOTES TO THE PRO FORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2014**

## 2. PLANT AND EQUIPMENT

The movements in plant and equipment of DNeX are as follows:-

| | Maximum Scenario RM'000 | Minimum Scenario RM'000 |
|---|---|---|
| At 31 December 2014/As per Pro Forma I/II | 14,143 | 14,143 |
| Acquisition of OGPC Group | 7,703 | 7,703 |
| As per Pro Forma III/IV/V | 21,846 | 21,846 |

## 3. GOODWILL ON CONSOLIDATION

The movements in goodwill on consolidation of DNeX are as follows:-

| | Maximum Scenario RM'000 | Minimum Scenario RM'000 |
|---|---|---|
| At 31 December 2014/As per Pro Forma I/II | - | - |
| Acquisition of OGPC Group | 114,991 | 114,991 |
| As per Pro Forma III/IV/V | 114,991 | 114,991 |

## 4. RECEIVABLES, DEPOSITS AND PREPAYMENTS

The movements in receivables, deposits and prepayments of DNeX are as follows:-

| | Maximum Scenario RM'000 | Minimum Scenario RM'000 |
|---|---|---|
| At 31 December 2014/As per Pro Forma I/II | 57,838 | 57,838 |
| Acquisition of OGPC Group | 30,552 | 30,552 |
| As per Pro Forma III/IV/V | 88,390 | 88,390 |

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**DAGANG NeXCHANGE BERHAD ("DNeX")**
**NOTES TO THE PRO FORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2014**

## 5. INVENTORIES

The movements in inventories of DNeX are as follows:-

| | Maximum Scenario RM'000 | Minimum Scenario RM'000 |
|---|---|---|
| At 31 December 2014/As per Pro Forma I/II | - | - |
| Acquisition of OGPC Group | 5,455 | 5,455 |
| As per Pro Forma III/IV/V | 5,455 | 5,455 |

## 6. TAX RECOVERABLE

The movements in tax recoverable of DNeX are as follows:-

| | Maximum Scenario RM'000 | Minimum Scenario RM'000 |
|---|---|---|
| At 31 December 2014/As per Pro Forma I/II | 1,985 | 1,985 |
| Acquisition of OGPC Group | 179 | 179 |
| As per Pro Forma III/IV/V | 2,164 | 2,164 |

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**DAGANG NeXCHANGE BERHAD ("DNeX")**
**NOTES TO THE PRO FORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2014**

## 7. CASH AND CASH EQUIVALENTS

The movements in cash and cash equivalents of DNeX are as follows:-

| | Maximum Scenario RM'000 | Minimum Scenario RM'000 |
|---|---|---|
| At 31 December 2014 | 70,828 | 70,828 |
| Arising from rights issue | 97,681 | 97,681 |
| As per Pro Forma I | 168,509 | 168,509 |
| Arising from special issue | 28,600 | 28,600 |
| As per Pro Forma II | 197,109 | 197,109 |
| Acquisition of OGPC Group | (29,623) | (29,623) |
| Estimated expenses | (4,800) | (4,800) |
| As per Pro Forma III | 162,686 | 162,686 |
| Arising from full exercise of Warrants | 355,698 | - |
| As per Pro Forma IV | 518,384 | 162,686 |
| Arising from grant, vesting and full exercise of ESOS Options | 25,068 | 17,772 |
| As per Pro Forma V | 543,452 | 180,458 |

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**DAGANG NeXCHANGE BERHAD ("DNeX")**
**NOTES TO THE PRO FORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2014**

## 8. SHARE CAPITAL

The movements in share capital of DNeX are as follows:-

| | Maximum Scenario | | Minimum Scenario | |
|---|---|---|---|---|
| | No. of Ordinary Share ('000) | RM'000 | No. of Ordinary Share ('000) | RM'000 |
| At 31 December 2014 | 775,245 | 155,049 | 775,245 | 155,049 |
| Arising from rights issue | 465,146 | 93,029 | 465,146 | 93,029 |
| As per Pro Forma I | 1,240,391 | 248,078 | 1,240,391 | 248,078 |
| Arising from special issue | 130,000 | 26,000 | 130,000 | 26,000 |
| As per Pro Forma II | 1,370,391 | 274,078 | 1,370,391 | 274,078 |
| Acquisition of OGPC Group | 362,500 | 72,500 | 362,500 | 72,500 |
| As per Pro Forma III | 1,732,891 | 346,578 | 1,732,891 | 346,578 |
| Arising from full exercise of Warrants | 711,397 | 142,279 | - | - |
| As per Pro Forma IV | 2,444,288 | 488,857 | 1,732,891 | 346,578 |
| Arising from grant, vesting and full exercise of ESOS Options | 122,214 | 24,443 | 86,645 | 17,329 |
| As per Pro Forma V | 2,566,502 | 513,300 | 1,819,536 | 363,907 |

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**DAGANG NeXCHANGE BERHAD ("DNeX")**
**NOTES TO THE PRO FORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2014**

**9. SHARE PREMIUM**

The movements in share premium of DNeX are as follows:-

| | Maximum Scenario RM'000 | Minimum Scenario RM'000 |
|---|---|---|
| At 31 December 2014 | - | - |
| Arising from rights issue | 2,279 | 2,279 |
| As per Pro Forma I | 2,279 | 2,279 |
| Arising from special issue | 2,307 | 2,307 |
| As per Pro Forma II | 4,586 | 4,586 |
| Acquisition of OGPC Group | 13,612 | 13,612 |
| Estimated expenses * | (4,699) | (4,699) |
| As per Pro Forma III | 13,499 | 13,499 |
| Arising from full exercise of Warrants | 216,872 | - |
| As per Pro Forma IV | 230,371 | 13,499 |
| Arising from grant, vesting and full exercise of ESOS Options | 1,847 | 1,309 |
| As per Pro Forma V | 232,218 | 14,808 |

* - Represents 97.56% of the total estimated expenses of RM4,800,000 in relation to the Proposals. The basis of 97.56% is derived by way of applying weighted average method according to the proportion of the fair value of one (1) ordinary share in DNeX of approximately to RM0.2351 over the indicative issue price of RM0.24 per new DNeX Shares, which is based on the recommended practice stated in Financial Reporting Standards Implementation Committee ("FRSIC") Consensus 9.

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**DAGANG NeXCHANGE BERHAD ("DNeX")**
**NOTES TO THE PRO FORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2014**

## 10. WARRANTS RESERVE

The movements in warrants reserve of DNeX are as follows:-

| | Maximum Scenario RM'000 | Minimum Scenario RM'000 |
|---|---|---|
| At 31 December 2014 | - | - |
| Arising from issuance of the warrants | 2,373 | 2,373 |
| As per Pro Forma I | 2,373 | 2,373 |
| Arising from issuance of the warrants | 293 | 293 |
| As per Pro Forma II | 2,666 | 2,666 |
| Arising from issuance of the warrants | 888 | 888 |
| Estimated expenses * | (101) | (101) |
| As per Pro Forma III | 3,453 | 3,453 |
| Transfer to share premium upon full exercise of Warrants | (3,453) | - |
| As per Pro Forma IV/V | - | 3,453 |

* - Represents 2.44% of the total estimated expenses of RM4,800,000 in relation to the Proposals. The basis of 2.44% is derived by way of applying weighted average method according to the proportion of the fair value of one (1) ordinary share in DNeX of approximately to RM0.0049 over the indicative issue price of RM0.24 per new DNeX Shares, which is based on the recommended practice stated in Financial Reporting Standards Implementation Committee ("FRSIC") Consensus 9.

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**DAGANG NeXCHANGE BERHAD ("DNeX")**
**NOTES TO THE PRO FORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2014**

## 11. ESOS RESERVE

The movements in ESOS reserve of DNeX are as follows:-

| | Maximum Scenario RM'000 | Minimum Scenario RM'000 |
|---|---|---|
| At 31 December 2014/As per Pro Forma I/II/III/IV | - | - |
| Arising from ESOS Options granted | 1,222 | 866 |
| Arising from full exercise of ESOS Options | (1,222) | (866) |
| As per Pro Forma V | - | - |

## 12. ACCUMULATED LOSSES

The movements in accumulated losses of DNeX are as follows:-

| | Maximum Scenario RM'000 | Minimum Scenario RM'000 |
|---|---|---|
| At 31 December 2014/As per Pro Forma I/II/III/IV | (68,859) | (68,859) |
| Arising from ESOS Options granted | (1,222) | (866) |
| As per Pro Forma V | (70,081) | (69,725) |

## 13. DEFERRED TAX LIABILITIES

The movements in deferred tax liabilities of DNeX are as follows:-

| | Maximum Scenario RM'000 | Minimum Scenario RM'000 |
|---|---|---|
| At 31 December 2014/As per Pro Forma I/II | 2,796 | 2,796 |
| Acquisition of OGPC Group | 30 | 30 |
| As per Pro Forma III/IV/V | 2,826 | 2,826 |

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AF 1018

**DAGANG NeXCHANGE BERHAD ("DNeX")**
**NOTES TO THE PRO FORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2014**

## 14. TRADE AND OTHER PAYABLES

The movements in trade and other payables of DNeX are as follows:-

| | Maximum Scenario RM'000 | Minimum Scenario RM'000 |
|---|---|---|
| At 31 December 2014/As per Pro Forma I/II | 17,312 | 17,312 |
| Acquisition of OGPC Group | 18,462 | 18,462 |
| As per Pro Forma III/IV/V | 35,774 | 35,774 |

## 15. TAX PAYABLE

The movements in tax payable of DNeX are as follows:-

| | Maximum Scenario RM'000 | Minimum Scenario RM'000 |
|---|---|---|
| At 31 December 2014/As per Pro Forma I/II | 1,439 | 1,439 |
| Acquisition of OGPC Group | 2,765 | 2,765 |
| As per Pro Forma III/IV/V | 4,204 | 4,204 |

## 16. DIVIDEND PAYABLE

The movements in dividend payable of DNeX are as follows:-

| | Maximum Scenario RM'000 | Minimum Scenario RM'000 |
|---|---|---|
| At 31 December 2014/As per Pro Forma I/II | - | - |
| Acquisition of OGPC Group | 21,000 | 21,000 |
| As per Pro Forma III/IV/V | 21,000 | 21,000 |

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**DAGANG NeXCHANGE BERHAD ("DNeX")**
**NOTES TO THE PRO FORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2014**

Approved and adopted by the Board in accordance with a resolution dated 11 JAN 2016

**DATUK SAMSUL BIN HUSIN**

**ZAINAL 'ABIDIN BIN ABD JALIL**

OGPC

# OGPC Sdn. Bhd. (CO. NO. 300347-H)

GST No: 001679171584
No. 1 & 3, Jalan Riyal U3/37 iParc 3@Shah Alam, Seksyen U3,
40150 Shah Alam, Selangor Darul Ehsan, Malaysia.
Tel No: (603) 5870 0100 Fax No: (603) 58700 101 / 102 / 103
E-mail: info@ogpc.com.my Website: www.ogpc.com.my

Date: 12 January 2016

The Shareholders of
**DAGANG NeXCHANGE BERHAD**
Tower 3, Avenue 5
The Horizon, Bangsar South No. 8 Jalan Kerinchi
59200 Kuala Lumpur

Dear Sir / Madam,

On behalf of the Board of Directors of OGPC Sdn Bhd ("**OGPC**"), I wish to report after due enquiry by the Board of Directors of OGPC, that between the period from 31 December 2014 (being the date to which the last audited financial statements of OGPC have been made up) to the date of this letter (being a date not earlier than 14 days before the issuance of this Circular), that:-

(a) the business of OGPC has, in the opinion of the Directors, been satisfactorily maintained;

(b) in the opinion of the Directors, no circumstances have arisen since the last audited financial statements of OGPC, which have adversely affected the trading or the value of the assets of OGPC;

(c) the current assets of OGPC appear in the books at values which are believed to be realisable in the ordinary course of business;

(d) save as disclosed in this Circular, there are no contingent liabilities by reason of any guarantee or indemnity given by OGPC;

(e) there have been, since the last audited financial statements of OGPC, no default or any known event that could give rise to a default situation, on payments of either interest and/or principal sums for any borrowings by OGPC; and

(f) save as disclosed in this Circular, there have been no material changes to the published reserves or any unusual factor affecting the profits of OGPC since the last audited financial statements of OGPC.

Yours faithfully
For and on behalf of the Board of Directors
**OGPC SDN BHD**

**AZMAN BIN KARIM**
DIRECTOR

OGPC

# OGPC O&G Sdn. Bhd.

*(A Subsidiary of OGPC Sdn Bhd)*
CO. NO. 805887-X
GST No: 001441681408
No. 1 & 3, Jalan Riyal U3/37 iParc 3@Shah Alam, Seksyen U3,
40150 Shah Alam, Selangor Darul Ehsan, Malaysia.
Tel No: (603) 5870 0100 Fax No: (603) 58700 101 / 102 / 103
E-mail: info@ogpc.com.my Website: www.ogpc.com.my

Date: 12 January 2016

The Shareholders of
**DAGANG NeXCHANGE BERHAD**
Tower 3, Avenue 5
The Horizon, Bangsar South No. 8 Jalan Kerinchi
59200 Kuala Lumpur

Dear Sir / Madam,

On behalf of the Board of Directors of OGPC O&G Sdn Bhd ("**OGPCOG**"), I wish to report after due enquiry by the Board of Directors of OGPCOG, that between the period from 31 December 2014 (being the date to which the last audited financial statements of OGPCOG have been made up)to the date of this letter (being a date not earlier than 14 days before the issuance of this Circular), that:-

(a) the business of OGPCOG has, in the opinion of the Directors, been satisfactorily maintained;

(b) in the opinion of the Directors, no circumstances have arisen since the last audited financial statements of OGPCOG, which have adversely affected the trading or the value of the assets of OGPCOG;

(c) the current assets of OGPCOG appear in the books at values which are believed to be realisable in the ordinary course of business;

(d) save as disclosed in this Circular, there are no contingent liabilities by reason of any guarantee or indemnity given by OGPCOG;

(e) there have been, since the last audited financial statements of OGPCOG, no default or any known event that could give rise to a default situation, on payments of either interest and/or principal sums for any borrowings by OGPCOG; and

(f) save as disclosed in this Circular, there have been no material changes to the published reserves or any unusual factor affecting the profits of OGPCOG since the last audited financial statements of OGPCOG.

Yours faithfully
For and on behalf of the Board of Directors
**OGPC O&G SDN BHD**

**AZMAN BIN KARIM**
DIRECTOR

**(Unless otherwise stated, all abbrebreviations used herein shall have the same meanings as those defined in the definitions page of this Circular)**

For the purpose of this Appendix VI, the term "**SSA**" referred herein means the SSA, as amended by the Supplemental SSA.

**1. Mode of satisfaction of the OGPC Group Purchase Consideration**

DNeX and the Vendors ("**Parties**") agree that the OGPC Group Purchase Consideration shall be satisfied in the following manner:-

(a) on the date of the SSA, DNeX shall pay to the Vendors a sum of RM10,000,000 only ("**Deposit**"); and

(b) on a day within a period of 21 days from the Unconditional Date (as defined below) or such longer period as the Parties may mutually agree in writing ("**Completion Period**"), DNeX shall pay to the Vendors the balance purchase consideration of RM160,000,000 ("**Balance Purchase Consideration**") in the manner set out below:-

(i) by the payment from DNeX to the Vendors the cash consideration of RM73,000,000; and

(ii) allot and issue the Consideration Shares, each credited as fully paid-up and ranking pari passu in all respects with all the then existing DNeX Shares in favour of the Vendors.

**2. Conditions Precedent**

The SSA is conditional upon the following being obtained and/or fulfilled within the period of 14 months from the date of the SSA or such extended period as the Parties may mutually agree in writing ("**Conditional Period**"):-

(a) the approval from the relevant authorities in relation to the Proposed Acquisitions, being obtained by DNeX and/or the Vendors, as the case may be;

(b) the approval from the relevant authorities in relation to the Proposals being obtained by DNeX and/or the Vendors, as the case may be;

(c) the waivers, consents or approvals as may be required under any license granted by any regulatory body, authority or any third party to OGPC Group which are required by OGPC Group for the carrying out of their business, and includes such other principal agency/distributorship/supplier agreements appointing OGPC or OGPCOG as agent, distributor, supplier or any such similar capacity, being obtained and procured by the Vendors for the OGPC Group;

(d) upon DNeX being satisfied with the outcome of the financial, business and legal due diligence performed on the OGPC Group;

(e) the approval of the Shareholders in EGM for the Proposals; and

(f) such other waivers, consents or approvals as may be required from any relevant authorities and/or third parties including Khazanah Nasional Berhad, if required.

The SSA shall become unconditional upon the date on which the last of the Conditions Precedent set out in Sections 2(a) to (f) of this Appendix VI above is satisfied in accordance with the terms of the SSA, which shall in any event be within the Conditional Period ("**Unconditional Date**").

Notwithstanding anything contained in the SSA, the Parties may by mutual consent and to the extent legally permissible proceed with waiving any one or more of such Conditions Precedent.

**3. Non-fulfillment of Conditions Precedent**

In the event that the Conditions Precedent are not fulfilled within the Conditional Period, the rights and obligations of the Parties shall lapse, be of no further effect and deemed mutually terminated and none of the Parties shall have any rights or claims against each other save and except for any antecedent breach.

If any of the Conditions Precedent is not fulfilled before the Conditional Period, the Vendors shall within 14 days from the termination of the SSA, return the Deposit together with all interest accrued thereon (if any) to DNeX.

**4. Completion**

If: -

(a) no event of default as set out in the SSA has occurred or would occur as a result of the completion of the SSA;

(b) the Conditions Precedent have been procured, obtained and/or fulfilled by DNeX and/or the Vendors and/or the OGPC Group;

(c) there has been, in the opinion of DNeX, no adverse change or potential adverse change in the financial condition or otherwise of the OGPC Group since the date of the SSA;

(d) each of the representations and warranties set out in the SSA remains true, correct and accurate in all respects on the day the Balance Purchase Consideration is to be paid to the Vendors in accordance with Section 1(b) above and which shall be a date within the Completion Period ("**Completion Date**") as if given on that date by reference to the facts and circumstances then existing;

(e) no governmental entity shall have enacted, issued, promulgated, enforced or entered any statute, rule, regulation, injunction or other order, whether temporary, preliminary or permanent, which is in effect and which has or would have the effect of making the transactions contemplated by the SSA illegal or restraining or prohibiting consummation of such transactions;

then the Parties shall, on the Completion Date, complete the Proposed Acquisitions upon the terms and subject to the conditions as set out in the SSA.

In the event that any of the Parties without any default by the other Party fail and/or neglect to complete the SSA after the terms of the SSA have been rendered unconditional, or shall breach any material term or condition of the SSA, the provisions in Section 6 below shall apply.

**5. Termination**

Upon the occurrence of certain events of default, among others, the breach of any material or fundamental terms or conditions of the SSA, or a failure to perform or observe any material or fundamental undertaking, obligation or agreement in the SSA including the breach of any material warranties, or an appointment of a receiver, manager, liquidator or similar official over any of the assets or undertaking of the defaulting party or the OGPC Group, the non-defaulting party may give notice in writing to the defaulting party specifying the default or breach of the defaulting party and requiring the defaulting party to remedy the said default or breach within 14 market days of the receipt of such notice or such extended period as may be allowed by the non-defaulting party.

**6. (a) Default by DNeX**

In the event that DNeX fails to observe or perform or otherwise be in breach of any of the provisions of the SSA and such default or breach is not remedied by DNeX within 14 market days after being given written notice by the Vendors to rectify such default or breach, the Vendors may elect to either:-

(i) terminate the SSA by notice in writing to DNeX and refund all monies paid towards account of the OGPC Group Purchase Consideration, save and except for the Deposit which shall be forfeited by the Vendors as agreed liquidated damages and thereafter neither Parties shall have any further claim against the other save and except for any antecedent breach; or

(ii) claim specific performance of the SSA against DNeX.

**(b) Default by Vendors**

In the event that the Vendors or any of them fail to observe or perform or otherwise be in breach of any of the provisions of the SSA or any of the warranties and representations is found to be untrue, false or misleading, and such default or breach is not remedied by the Vendors within 14 market days after being given written notice by DNeX to rectify such default or breach, DNeX may elect to either:-

(i) terminate the SSA by notice in writing to the Vendors whereby the Vendors shall forthwith refund all monies paid towards account of the OGPC Group Purchase Consideration, including the Deposit, (together with any accrued interest) to DNeX and pay to DNeX a further sum equivalent to the Deposit as agreed liquidated damages and thereafter neither Parties shall have any further claim against the other save and except for any antecedent breach; or

(ii) claim specific performance of the SSA against the Vendors.

**7. Variation**

(a) In the event that the relevant authorities shall impose conditions and/or variations to the terms and conditions of the SSA, the Proposed Acquisitions and/or the Proposals on the Parties, including the OGPC Group Purchase Consideration or otherwise, any party may appeal to the relevant bodies for removal or revision of the conditions and/or variations within 14 days of receipt of notification. Upon decision of the appeal is made and the other party does not accept the results of the appeal within 14 days of receipt of the same from the relevant body or the other party, then the Conditions Precedent shall be considered to be unfulfilled, in which case Section 3 above shall apply.

(b) In the event that the outcome of the due diligence is not satisfactory to DNeX resulting in the Condition Precedent under Section 2(d) above not being fulfilled, the Parties may vary the terms of the SSA, including but not limited to the OGPC Group Purchase Consideration, and any such variation shall be in writing upon terms to be mutually agreed upon by the Parties.

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**8. Negative Covenant**

Unless otherwise disclosed in writing to DNeX prior to the execution of SSA, the Vendors covenant and undertake with DNeX, amongst others, or as provided in the SSA, the Vendors shall ensure that they and/or the OGPC Group, (as the case may be) (each in relation to themselves and their capacity as shareholders in the OGPC Group), shall not between the date of the SSA and the Completion Date, without prior written consent of DNeX, declare any dividend or make any distribution of the capital of the OGPC Group to its members in any way or do or suffer anything whereby its adjusted consolidated net tangible assets would be rendered less than RM44,380,000 consisting of a cash balance of not less than RM25,200,000 as at the Completion Date.

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**1. Appointment as Executive**

OGPC has agreed to employ the Vendors and the Vendors have agreed to serve OGPC as Directors on a full-time basis for a fixed duration of two (2) years commencing from the Completion Date of the SSA and such appointment is renewable on agreement by the parties to the Management Services Agreements, upon the terms and subject to the conditions contained in the Management Services Agreements.

**2. Services and duties**

The Vendors shall be providing the following services in the best interest of OGPC ("**Services**"):-

(a) responsible for the day to day management and conduct of the businesses of the OGPC Group;

(b) report to the board of Directors of OGPC on matters relating to the management, operational and financial matters of the OGPC Group and to act in accordance with the directions of the board of Directors of OGPC;

(c) keep the board of Directors of OGPC promptly and fully informed and updated on a regular basis and as and when requested, about the progress of the business and its management;

(d) faithfully and diligently undertake and perform such duties and exercise such powers in relation to the OGPC Group and its business as the board of Directors of OGPC shall from time to time assign or vest in them;

(e) immediately undertake to construe, develop, identify and implement a succession plan and to identify and put in place those personnel (which the board of Directors of OGPC shall have the discretion to approve or reject, and whose approval shall not be unreasonably withheld) who shall be the management successor of the of OGPC; and

(f) other services incidental thereto their positions as set out in the Management Services Agreements as may be required by OGPC and all such things as may fall within the usual scope of that office.

**3. Management**

Notwithstanding the above,

(a) The Vendors' operation and management of the businesses of the OGPC Group will be subject to the OGPC's instructions and the approved discretionary authority limits adopted by DNeX group of companies from time to time.

(b) The Vendors shall not, without OGPC's prior written consent:-

(i) enter into any contract or vary the terms of, or terminate, any contract; or

(ii) commit the business to any expenditure or capital commitment which is: –

(aa) outside the ordinary course of its business; or

(bb) exceeds the approved Discretionary Authority Limits adopted by DNeX Group;

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(c) The Vendors shall not have any power or authority:

(i) to represent or bind or pledge the credit of the OGPC Group;

(ii) to incur any obligations (financial or otherwise) for and on behalf of the OGPC Group;

(iii) to make any decisions in relation to the financial matters of the OGPC Group and shall act in accordance with the directions, observe all restrictions and carry out all directives that OGPC may impose in relation to the financial matters of the OGPC Group; and

(iv) to appoint auditor and accountant of the OGPC Group, the right of which shall lie solely with OGPC. The accountant appointed by the OGPC shall report to the Group Chief Financial Officer of DNeX,

save and except where the Vendors have been authorised by a resolution of the Board of OGPC to do so.

**4. No conflict of interest**

Save and except for the business of OGPC and/or its subsidiaries or associated companies, the Vendors shall not, during the continuance of their appointment, and for three (3) years after the termination of their appointments (except as a representative of the Company with the consent in writing of the Board of OGPC) either on their own account or in conjunction with or on behalf of person, firm, company or organisation:-

(a) be directly or indirectly engaged or concerned or interested whether as shareholder, Director, executive, partner, agent or otherwise in any other business similar to the business carried on by the OGPC Group or any transactions or any deals competing with or in opposition to the business for the time being of the OGPC Group; and

(b) employ, solicit or entice away from the OGPC Group any person who is or shall have been at the date of or within one (1) year prior to such cessation of their employments, an officer, manager, consultant or employee of the OGPC Group whether or not such person would commit a breach of contract by reason of leaving such employment.

**5. Non-solicitation and restrictive covenants**

**5.1 Restrictive covenants**

The Vendors undertake with the OGPC that except with the consent in writing of the OGPC: -

(a) for the period of three (3) years after the cessation of their appointments with OGPC for any reason whatsoever, they will not solicit or attempt to solicit any business transaction with any person, firm, company or organisation who shall at any time during the period of two (2) years prior to the date of termination of the Vendors' appointments have been a customer, client, agent or correspondent of the OGPC Group or in the habit of dealing with the OGPC Group with a view to enticing away the business transactions of such person, firm, company or organisation from the OGPC Group;

(b) they will not at any time hereafter make use of or disclose or divulge to any third party any private or confidential information relating to the OGPC Group other than any information properly available to the public or disclosed or divulged pursuant to an order of a court of competent jurisdiction;

(c) they will not at any time hereafter in relation to any trade, business or company use name or any part or parts thereof in such a way as to be capable of or likely to be confused with the name of the OGPC Group and shall use all reasonable endeavour to procure that no such name shall be used by any person, firm or company with which they are connected; and

(d) they will not during the continuance of the Management Services Agreements make otherwise than for the benefit of OGPC any notes or memorandum relating to any matter within the scope of the business of the OGPC Group or concerning any of its dealings or affairs nor shall the Vendors either during the continuance of this Management Services Agreements or afterwards use or permit to be used any such notes or memorandum otherwise than for the benefit of the OGPC Group it being the intention of the parties to the Management Services Agreements that all such notes or memorandum made by the Vendors shall be the property of the OGPC Group and left at its office upon the termination of their appointment hereunder the Management Service Agreements.

**5.2 Moratorium on the transfer of Consideration Shares in DNeX**

Subject to any undertaking to be given by the Vendors to the relevant authorities, the Vendors, will not sell, transfer, assign, mortgage, pledge or otherwise encumber, dispose of or deal with or part with the registered or beneficial ownership of any of their portions of the Consideration Shares for a period of three (3) years from the Completion Date without prior consent in writing from DNeX.

**6 Termination**

The Management Services Agreements may be terminated forthwith by OGPC without any compensation to any of the Vendors if such Vendor shall at any time:-

(a) commit any breach of any of the provisions of the Management Services Agreeements and has failed to make good any such breach within fourteen (14) days of being required to do so by way of written notice identifying the breach and steps which must be taken to remedy it; or

(b) be guilty of any serious misconduct or wilful neglect in the discharge of his duties; or

(c) be found to be grossly incompetent; or

(d) be convicted of any criminal offence in Malaysia or elsewhere other than an offence which in the reasonable opinion of the board of Directors of OGPC does not affect his position as the executive of OGPC; or

(e) become bankrupt or is unable to pay his debts or admits in writing his inability to pay his debts as they fall due or make any arrangement or composition with his creditors in Malaysia or elsewhere or makes a general assignment for the benefit of his creditors or a bankruptcy proceeding is brought against him; or

(f) become of unsound mind; or

(g) by reason of circumstances beyond the control of OGPC which renders OGPC to be unable to usefully utilise his Services; or

(h) become prohibited from being a Director by reason of any order made under the Act or contravenes Section 130 of the Act; or

(i) by reason of his death; or

(j) subject to paragraph 7 below, by reason of OGPC being wound up or having been instituted with winding up proceedings; or

(k) by reason of the SSA not being completed; or

(l) engage in any conduct which in the opinion of OGPC is likely to affect or detrimental to the interest of OGPC or the OGPC Group; or

(m) commit any breach of fiduciary duty or act of dishonestly relating to the OGPC or OGPC Group or otherwise in connection with the Services.

If the Management Services Agreements are terminated under paragraph 6 (a),(b),(c),(d),(e),(f),(h),(l) or (m), the Vendors shall be deemed to be in breach of the Management Services Agreements and determination of the Management Services Agreements shall be without prejudice to OGPC's right to any claim for damages in respect of such breach.

In the event that OGPC and DNeX fail to observe or perform or otherwise be in breach of any provisions of the Management Services Agreements and such default or breach is not remedied within fourteen (14) days, the Vendors may elect to terminate the Management Services Agreements by notice in writing and are compensated for the remaining emoluments and benefits accrue to the Vendors without prejudice to the Vendors' right to any claim for damages in respect of such breach.

**7. Reconstruction or amalgamation of OGPC**

If before the termination of the Management Services Agreements, the Vendors' appointments under the Management Services Agreements shall be determined by reason of the liquidation of the OGPC Group for the purpose of reconstruction or amalgamation and they shall be offered appointment with any concern or undertaking resulting from such reconstruction or amalgamation on terms and conditions not less favourable than the terms of the Management Services Agreements then they shall have no claim against the OGPC Group in respect of the determination of their appointments thereunder.

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**DAGANG NeXCHANGE BERHAD**

**DRAFT BY-LAWS OF THE PROPOSED ESOS**

## 1. DEFINITIONS AND INTERPRETATIONS

1.1 In these By-Laws, unless otherwise specified, the following definitions shall, where the context so admits, be deemed to have the following meanings:-

| | | |
|---|---|---|
| **"Act"** | : | Companies Act, 1965 |
| **"Adviser"** | : | A person who is permitted to carry on the regulated activity of advising corporate finance under the Capital Markets and Services Act 2007 to act as a Principal Adviser as defined in the Securities Commission Malaysia's Principal Adviser Guidelines |
| **"Articles"** | : | Articles of association of the Company |
| **"Auditor"** | : | An approved company auditor (as defined in Section 8 of the Act) of the Company for the time being or such other external auditors as may be nominated by the Board |
| **"Board"** | : | The Board of Directors of the Company |
| **"Bursa Depository"** | : | Bursa Malaysia Depository Sdn Bhd (165570-W) |
| **"Bursa Securities"** | : | Bursa Malaysia Securities Berhad (635998-W) |
| **"By-Laws"** | : | The terms and conditions governing the Scheme, as may be amended, modified and/or supplemented from time to time and to be adopted pursuant to By-Law 17 |
| **"CDS"** | : | A Central Depository System governed under the Central Depositories Act |
| **"CDS Account"** | : | An account established by Bursa Depository for a depositor for the recording of deposit of securities and dealings in such securities by that depositor of securities |
| **"Central Depositories Act"** | : | Securities Industry (Central Depositories) Act, 1991 |
| **"Company" or "DNeX"** | : | Dagang NeXchange Berhad (10039-P) |
| **"Date of Allocation"** | : | A date to be determined by the ESOS Committee to be the date on which a Selected Person is deemed eligible to participate in the Scheme |
| **"Date of Expiry"** | : | The last day of an Option Period |
| **"Date of Offer"** | : | The date of the Offer Letter, as described in By-Law 5.3, being the date on which a Selected Person is deemed to have been notified of an Offer by the ESOS Committee |
| **"Director"** | : | A natural person who holds a directorship in an executive or non-executive capacity in the Group |

| | | |
|---|---|---|
| **"Disciplinary Proceedings"** | : | Means proceedings instituted against a Selected Person for any alleged negligence, misbehaviour, misconduct, fraud, financial misstatement, reputational damage and/or any other act of the Selected Person deemed to be unacceptable by DNeX or any of its subsidiaries in the course of that Selected Person's employment, whether or not such proceedings may give rise to a dismissal or termination of the contract of service of such Selected Person |
| **"Duration of the Scheme"** | : | The duration of the Scheme as defined in By-Law 20 and includes any extension or renewal thereof |
| **"Effective Date"** | : | The date of commencement of the Scheme, being the date of full compliance with all the relevant requirements as stated in By-Law 20 |
| **"Eligible Person"** | : | Any Executive Director or Employee of DNeX Group who meet the eligibility criteria to participate in the Scheme as set out in By-Law 3 |
| **"Employee"** | : | Any person who is employed by any corporation of the Group and is on the payroll of the Group including any Executive Director of the DNeX Group |
| **"Entitlement Date"** | : | The date as of the close of business on which, shareholders whose names must appear in the record of depositors of the Company maintained at Bursa Depository in order to participate in any dividend, right, allotment and/or any other forms of distribution |
| **"ESOS Committee"** | : | The committee comprising such persons as may be duly appointed and authorised by the Board, to administer the Scheme in accordance with the provisions of By-Law 16 |
| **"ESOS Option"** | : | The right of a Grantee to subscribe for new Shares at the Subscription Price and where the context so requires, means any part of the ESOS Option as shall remain unexercised |
| **"Executive Director"** | : | A natural person who is a director in a full-time executive capacity who is involved in the day-to-day management and on the payroll of any company within DNeX Group |
| **"Grantee"** | : | A Selected Person who has accepted the Offer in accordance with the provisions of By-Law 6 |
| **"Group" or "DNeX Group"** | : | The Company and its subsidiaries incorporated in Malaysia as defined in Section 5 of the Act (excluding subsidiaries which are dormant) and any subsidiary incorporated or acquired at any time during the Duration of the Scheme and where the context so requires, any one of them |
| **"Listing Requirements"** | : | Main Market Listing Requirements of Bursa Securities |
| **"Market Day"** | : | Any day between Monday and Friday, both days inclusive, which is a trading day on Bursa Securities |

| | | |
|---|---|---|
| **"Maximum Allowable Allotment"** | : | Shall have the same meaning as ascribed to it in By-Law 4.1 |
| **"Notice of Exercise"** | : | Shall have the same meaning as ascribed to it in By-Law 9.3 |
| **"Offer"** | : | An offer of ESOS Options made by the ESOS Committee as set out in By-Law 5 to a Selected Person |
| **"Offer Letter"** | : | Shall have the same meaning as ascribed to it in By-Law 5.3 |
| **"Offeror"** | : | Shall have the same meaning as ascribed to it in By-Law 13(a) |
| **"Option Period"** | : | The period during which an ESOS Option may be exercised as may be specified in the Offer |
| **"Persons Connected"** | : | Has the same meaning as that assigned to "Person Connected" in paragraph 1.01 of the Listing Requirements |
| **"Rules of Bursa Depository"** | : | The rules of Bursa Depository, as issued pursuant to the Central Depositories Act |
| **"Scheme"** | : | DNeX Group Employee Share Option Scheme established by the By-Laws hereto for the grant of ESOS Options to Selected Person to subscribe for new Shares |
| **"Selected Person"** | : | An Eligible Person to whom an Offer is being made pursuant to By-Law 5 |
| **"Share(s)" or "DNeX Share(s)"** | : | Ordinary share(s) of RM0.20 each in the Company |
| **"Subscription Price"** | : | The price at which the Grantee shall be entitled to subscribe for a new Share as set out in By-Law 7 |

1.2 In these By-Laws:-

(a) any reference to a statutory provision shall include any subordinate legislation made from time to time under that provision and any Listing Requirements, policies and/or guidelines of Bursa Securities and/or other relevant authorities respectively (in each case, whether or not having the force of law but, if not having the force of law, the compliance with which is in accordance with the reasonable commercial practice of persons to whom such requirements, policies and/or guidelines are addressed to by Bursa Securities and/or other relevant authorities);

(b) any reference to a statutory provision shall include that provision as from time to time modified or re-enacted whether before or after the date of these By-Laws so far as such modification or re-enactment applies or is capable of applying to any ESOS Options offered and accepted prior to the Date of Expiry and shall include also any past statutory provision (as from time to time modified or re-enacted) which such provision has directly or indirectly replaced;

(c) words importing the singular meaning where the context so admits include the plural meaning and vice versa;

(d) words of the masculine gender include the feminine gender and all such words shall be construed interchangeably in that manner;

(e) any liberty or power which may be exercised or any determination which may be made hereunder by the Board or the ESOS Committee may be exercised at the Board's or ESOS Committee's discretion;

(f) if an event is to occur on a stipulated day which is not a Market Day, then the stipulated day will be taken to be the first Market Day after that day; and

(g) headings in these By-Laws are for convenience only and shall not be taken into account in the interpretation of these By-Laws.

**2. MAXIMUM NUMBER OF NEW SHARES AVAILABLE UNDER THE SCHEME**

2.1 Subject to By-Law 2.2, the maximum number of new Shares to be allotted and/or issued pursuant to the exercise of the ESOS Options that may be granted under the Scheme shall not exceed in aggregate five percent (5%) of the prevailing issued and paid-up share capital of the Company (excluding treasury shares) at any point in time when an Offer is made throughout the Duration of the Scheme. The Company will for the Duration of the Scheme make available sufficient number of new Shares in the unissued share capital of the Company to satisfy all subsisting ESOS Options which may be exercisable from time to time.

2.2 Notwithstanding the provisions of By-Law 2.1 or any other provision herein contained, in the event the maximum number of new Shares comprised in the ESOS Options granted under the Scheme exceeds the aggregate of five percent (5%) of the prevailing issued and paid-up share capital of the Company (excluding treasury shares) as a result of the Company purchasing, cancelling or reducing its own Shares in accordance with the provisions of Section 67A of the Act or any other corporate proposal and thereby diminishing its issued and paid-up share capital, then such ESOS Options granted prior to the adjustment of the issued and paid-up share capital of the Company shall remain valid and exercisable in accordance with the provisions of the Scheme. However in such a situation, the Company shall not make any more new Offers until the total number of Shares under the subsisting ESOS Options including Shares that have been issued under the Scheme falls below five percent (5%) of the Company's issued and paid-up share capital (excluding treasury shares).

**3. ELIGIBILITY**

3.1 Any Employee or Executive Director of the DNeX Group shall be eligible to participate in the Scheme and qualify for selection by the ESOS Committee, if, as at the Date of Allocation (where applicable), such Eligible Person:-

(a) has attained the age of eighteen (18) years;

(b) has been employed on a full time basis and is on the payroll of any corporation within the DNeX Group and his employment has been confirmed or such Eligible Person is serving in a specific designation under an employment contract for a fixed duration of at least one (1) year;

(c) is not a participant of any other employee share option scheme implemented by any company within the DNeX Group which is in force for the time being; and

(d) has fulfilled any other eligibility criteria and/or falls within such grade/category as may be determined by the ESOS Committee at its sole discretion from time to time,

provided that nothing herein shall invalidate any selection of any Eligible Person which may have been made by the Board on or prior to the Effective Date. For the avoidance of doubt, the ESOS Committee may determine any other eligibility criteria and/or waive any of the conditions of eligibility as set out in this By-Law 3.1, for purposes of selecting an Eligible Person at any time and from time to time, in the ESOS Committee's discretion.

3.2 Notwithstanding anything set out in these By-Laws and subject to the Listing Requirements, no Offers may be granted to any person who is a director, a major shareholder, chief executive of the Company, or a Person Connected with a director, major shareholder or chief executive of the Company, unless the specific grant of that Offer to that person shall have previously been approved by the shareholders of the Company in a general meeting.

3.3 Eligibility, however, does not confer on an Eligible Person a claim or right to participate in the Scheme unless the ESOS Committee has made an offer to the Eligible Person under By-Law 5 and the Eligible Person has accepted the Offer in accordance with the terms of the Offer and the Scheme.

3.4 The ESOS Committee may in its discretion revoke or suspend the nomination of any Eligible Person at any time and from time to time, whereupon such Eligible Person shall henceforth cease to be eligible for any Offers under this Scheme.

## 4. BASIS OF ALLOTMENT AND MAXIMUM ALLOWABLE ALLOTMENT OF SHARES

4.1 Subject to any adjustments which may be made under By-Law 14, the aggregate number of new Shares comprised in the ESOS Options to be offered to an Eligible Person in accordance with the Scheme shall be determined at the sole and absolute discretion of the ESOS Committee after taking into consideration, amongst other factors, the Selected Person's performance, seniority, the number of years in service and such other factors that the ESOS Committee may deem relevant in its discretion, subject to the following:

(a) that the number of ESOS Options made available under the Scheme shall not exceed the amount stipulated in By-Law 2.1; and

(b) the allocation to any individual Selected Person who, either singly or collectively through Persons Connected with him, holds twenty per cent (20%) or more in the issued and paid-up share capital of the Company (excluding treasury shares, if any), does not exceed ten percent (10%) of the total number of Shares available under the Scheme at any point in time when an Offer is made ("**Maximum Allowable Allotment**"); and

(c) the Executive Directors and Employees of the Group do not participate in the voting, deliberation or discussion of their own allocations of ESOS Options under the Scheme,

provided always that it is in compliance with the Listing Requirements, any prevailing guidelines, rules, regulations or requirements as amended from time to time issued by any other relevant regulatory authorities.

4.2 At the time the Offer is made in accordance with By-Law 5, the ESOS Committee shall set out, among others, the basis of allocation, identifying the category or grade of the Employee and the Maximum Allowable Allotment for the Selected Person.

4.3 Any Selected Person who holds more than one position within the Group and by holding such positions such Selected Person is in more than one category, such Selected Person shall only be entitled to the Maximum Allowable Allotment of any one category. The ESOS Committee shall be entitled at its discretion to determine the applicable category.

4.4 In the event that a Selected Person is promoted, the Maximum Allowable Allotment corresponding to the category of Employee which such Selected Person falls within as at the Date of Allocation, subject always to the maximum number of Shares as stipulated under By-Law 2.1.

## 5. OFFER

5.1 Subject to and in accordance with the provisions of these By-Laws, the ESOS Committee may at its discretion at any time from the Effective Date offer ESOS Options to a Selected Person after taking into consideration such criteria as the ESOS Committee deems fit, including but not limited to the Selected Person's position, contribution, job performance, duration of service and potential for future development.

5.2 The actual number of new Shares which may be offered to a Selected Person shall be at the discretion of the ESOS Committee but shall not be more than the Maximum Allowable Allotment as set out in By-Law 4.

5.3 The ESOS Committee will in its offer document ("**Offer Letter**") to a Selected Person state, inter alia, the number of Shares that can be subscribed under the Offer, the Subscription Price determined in accordance with the provisions of By-Law 7, the closing date for acceptance of the Offer and the manner and conditions of exercise of the ESOS Options. The Offer shall automatically lapse and thereafter be rendered null and void in the event of the death of the Selected Person or the Selected Person ceasing to be an Eligible Person for any reason whatsoever prior to the acceptance of the Offer by the Selected Person in the manner set out in By-Law 6 hereof.

5.4 Nothing herein shall prevent the ESOS Committee from making more than one Offer during the Duration of the Scheme to a Selected Person provided always that the total aggregate number of ESOS Options offered to any Selected Person including ESOS Options which have been exercised, if any, shall not exceed the Maximum Allowable Allotment. Each Offer made to any Selected Person by the ESOS Committee shall be separate and independent from any previous or later Offer made by the ESOS Committee to that Selected Person.

5.5 The Company shall keep and maintain at its expense a register of Grantees as required under section 68A of the Act.

5.6 The Company shall, on the date of the Offer, announce the following to Bursa Securities upon the ESOS Options offered under the Scheme:

(a) Date of Offer;

(b) Subscription Price of ESOS Options offered;

(c) number of ESOS Options offered;

(d) market price of its securities on the Date of Offer;

(e) number of ESOS Options offered to each Executive Director, if any; and

(f) vesting period of the ESOS Options offered.

5.7 An Offer shall be made in writing and in any manner as the ESOS Committee shall determine and may be made upon such terms and conditions as the ESOS Committee may decide from time to time. Nothing herein shall require any Offer made to be the same as or similar to other Offers previously or subsequently made whether to the same or a different Selected Person.

5.8 The ESOS Committee may at its discretion decide whether the allocation of the ESOS Options shall be staggered over the Duration of the Scheme.

## 6. ACCEPTANCE OF OFFER

6.1 An Offer made by the ESOS Committee under By-Law 5 shall be valid for a period of twenty one (21) calendar days from the Date of Offer and may be accepted within this prescribed period by the Selected Person by a notice (in a format to be prescribed by the ESOS Committee) to the ESOS Committee of such acceptance accompanied by a payment to the Company of a nominal non-refundable sum of Ringgit Malaysia One (RM1.00) as consideration for the grant of the ESOS Option.

6.2 If the Offer is not accepted in the manner aforesaid within the prescribed period of twenty one (21) calendar days from the Date of Offer, such Offer shall upon the expiry of the said prescribed period, automatically lapse and be null and void and be of no further force and effect, and the new Shares comprised in the ESOS Options may at the discretion of the ESOS Committee be re-offered to Eligible Persons.

## 7. SUBSCRIPTION PRICE

7.1 Subject to any adjustments made under these By-Laws and pursuant to the Listing Requirements, the price at which the Grantee is entitled to subscribe for each new Share shall be determined by the Board upon recommendation of the ESOS Committee based on:-

(a) the five (5) day weighted average market price of Shares immediately preceding the Date of Offer of the ESOS Option, with a potential discount of not more than ten percent (10%) or such lower or higher limit in accordance with any prevailing guidelines, rules or regulations issued by Bursa Securities or any other relevant authorities as may be amended from time to time during the Duration of the Scheme; or

(b) at the par value of DNeX Shares (or such other par value as may be permitted by the Act),

whichever is higher.

7.2 The Subscription Price as determined by the Board shall be conclusive and binding on the Grantees.

## 8. NON-ASSIGNABLE

An ESOS Option is personal to the Grantee. Save and except as provided in By-Law 18.4, an ESOS Option cannot be assigned, encumbered, transferred or otherwise disposed of in any manner whatsoever.

## 9. EXERCISE OF ESOS OPTION

9.1 An ESOS Option granted to a Grantee under the Scheme, subject to the provisions of By-Law 18, is exercisable by that Grantee during his lifetime within the Option Period. All unexercised ESOS Options shall become null and void after the Date of Expiry.

9.2 Upon acceptance of an Offer, the Grantee may during the Option Period exercise his ESOS Options at such time and in such manner and subject to such conditions as stipulated in the Offer Letter.

9.3 The Grantee shall notify the Company of his intention to exercise an ESOS Option in such form and manner as the ESOS Committee may prescribe or approve ("**Notice of Exercise**"). The Grantee shall, simultaneously with his exercise of the ESOS Option (or within such period as the ESOS Committee may prescribe), forward to the Company a remittance for the full amount of the subscription monies for the new Shares in respect of which the Notice of Exercise is given. An ESOS Option may be exercised in such manner and subject to such conditions as stipulated in the Offer Letter in respect of such lesser number of new Shares as the Grantee may decide to exercise. Such partial exercise of an ESOS Option shall not preclude the Grantee from exercising the ESOS Option as to the balance of any new Shares, if any, which he is entitled to subscribe under the Scheme.

9.4 The Grantee shall provide all information as required in the Notice of Exercise and the Company shall within eight (8) Market Days or such period as Bursa Securities may prescribe after the receipt of a valid Notice of Exercise and remittance from the Grantee allot and despatch the notice of allotment for the relevant number of Shares to the Grantee upon and subject to the provisions of the Articles, the Central Depositories Act and the Rules of Bursa Depository. No physical share certificates will be delivered to the Grantee.

9.5 Any failure to comply with the foregoing provisions and/or to provide all information as required in the Notice of Exercise or inaccuracy in the information provided shall result in the Notice of Exercise being rejected. The ESOS Committee shall inform the Grantee of the rejection of the Notice of Exercise within fourteen (14) calendar days from the date of rejection and the Grantee shall then be deemed not to have exercised his ESOS Options.

9.6 Notwithstanding anything to the contrary herein contained in these By-Laws, the ESOS Committee shall have the right at its discretion by notice to that effect:-

(a) to suspend the right of any Grantee who is found to have contravened the written policies and guidelines of the Group and/or the terms and conditions of the Grantee's employment (whether or not such contravention may give rise to a Disciplinary Proceeding being instituted) to exercise his ESOS Option. In addition to this right of suspension, the ESOS Committee may impose such terms and conditions as the ESOS Committee shall deem appropriate in its discretion, on the right of exercise of his ESOS Option having regard to the nature of the contravention provided always that in the event such contravention results in the dismissal or termination of service of such Grantee, the ESOS Option shall immediately cease and become null and void without notice, upon pronouncement of the dismissal or termination of service of such Grantee; or

(b) to suspend the right of any Grantee who is being subjected to Disciplinary Proceedings (whether or not such Disciplinary Proceedings may give rise to a dismissal or termination of service of such Grantee) to exercise his ESOS Option pending the outcome of such Disciplinary Proceedings. In addition to this right of suspension, the ESOS Committee may impose such terms and conditions as the ESOS Committee shall deem appropriate in its discretion, on the right of exercise of his ESOS Option having regard to the nature of the charges made or brought against such Grantee, provided always that:-

(i) in the event such Grantee is found not guilty of the charges which gave rise to such Disciplinary Proceedings, the ESOS Committee shall reinstate the right of such Grantee to exercise his ESOS Option; or

(ii) in the event such Grantee is found guilty resulting in the dismissal or termination of service of such Grantee, the ESOS Option shall immediately cease and become null and void without notice, upon pronouncement of the dismissal or termination of service of such Grantee; or

(iii) in the event such Grantee is found guilty but no dismissal or termination of service is recommended, the ESOS Committee shall have the right to determine at its discretion whether or not the Grantee may continue to exercise his ESOS Option and if so, to impose such terms and conditions or make such downward adjustment to the number of ESOS Options as it deems appropriate, on such exercise.

Nothing herein shall prevent the ESOS Committee (but the ESOS Committee shall not be obliged to do so) from making a fresh Offer to such Selected Person in the event that such disciplinary actions are not found against him or if such disciplinary actions are withdrawn.

9.7 Each ESOS Option shall be subject to the condition that no new Shares shall be issued to the Grantee pursuant to the exercise of the ESOS Option if such issue shall be contrary to any laws, rules and/or regulations of any regulatory body or authorities which may be in force during the Option Period.

## 10. RIGHTS OF A GRANTEE

10.1 The ESOS Options shall not carry any right to vote at any general meeting of the Company.

10.2 A Grantee shall not be entitled to any dividend, right, allotment or any other forms of distribution on his unexercised ESOS Options.

## 11. RIGHTS ATTACHING TO NEW SHARES

11.1 The new Shares to be allotted and issued upon any exercise of the ESOS Options will upon such allotment and issuance, rank *pari passu* in all respects with the existing issued and fully paid-up Shares except that the new Shares so issued will not be entitled to any dividends, rights, allotments and/or any other forms of distributions that may be declared, made or paid to shareholders, the Entitlement Date of which is prior to the date of which the new Shares are credited into the CDS Accounts of the Grantees.

11.2 The Grantees will not be entitled to any dividends, rights, allotments and/or any other forms of distributions until and unless such Grantees exercise their ESOS Options into new Shares and such new Shares are credited into the Grantees' respective CDS Accounts.

11.3 The new Shares allotted and credited into the CDS Accounts would also carry rights to vote at any general meeting of the Company provided that the shareholder is registered on the Entitlement Date as at the close of business to be entitled to attend and vote at the general meeting.

11.4 The new Shares shall be subjected to all the provisions of the Articles of the Company in relation to their issuance and allotment, transfer, transmission or otherwise.

## 12. RETENTION PERIOD

The new Shares to be issued and allotted to a Grantee pursuant to the exercise of an ESOS Option under the Scheme will not be subject to any retention period or restriction on transfer, disposal and/or assignment. However, the Grantees are encouraged to hold the Shares as a long-term investment and not for any speculative and/or realisation of immediate gain.

**13. TAKEOVER AND COMPULSORY ACQUISITION**

In the event of:-

(a) a takeover offer being made for the Company through a general offer to acquire the whole of the issued share capital of the Company (or such part thereof not at the time owned by the person making the general offer ("**Offeror**") or any persons acting in concert with the Offeror); or

(b) the Offeror becoming entitled or bound to exercise the right of compulsory acquisition of Shares under the provisions of any statutes, rules and/or regulations applicable at that point of time and gives notice to the Company that it intends to exercise such right on a specific date,

the ESOS Committee may at its discretion to the extent permitted by law allow the exercise of any unexercised ESOS Options (or any part thereof) by the Grantee at any time subject to such terms and conditions as may be prescribed notwithstanding that:-

(aa) the date on which the Grantee becomes entitled to exercise the ESOS Options or any part thereof is not due or has not occurred; and/or

(bb) the Option Period has not commenced; and/or

(cc) other terms and conditions set out in the Offer have not been fulfilled/satisfied.

**14. ALTERATION OF SHARE CAPITAL AND ADJUSTMENT**

14.1 In the event of any alteration in the capital structure of the Company during the Option Period, whether by way of capitalisation of profits or reserves, rights issues, subdivision or consolidation of shares or capital reduction or any other variation of capital:-

(a) the number of new Shares which a Grantee shall be entitled to subscribe for upon the exercise of each ESOS Option (excluding ESOS Options already exercised); and/or

(b) the Subscription Price,

shall be adjusted, provided always that:--

(i) no adjustment to the Subscription Price shall be made which would result in the new Shares to be issued on the exercise of the ESOS Option being issued at a discount to par value, and if such adjustments would but for this provision have so resulted, the Subscription Price payable shall be the par value of the new Shares;

(ii) on any such adjustment the resultant Subscription Price, if not an integral multiple of one (1) sen shall be rounded down to the nearest one (1) sen and in no event shall any adjustment (otherwise than upon the consolidation of Shares into Shares of a larger par value) involve an increase in the Subscription Price or reduce the number of ESOS Options that a Grantee is already entitled to;

(iii) upon any adjustment being made pursuant to these By-Laws, the ESOS Committee shall within thirty (30) days of the effective date of the alteration in the capital structure of the Company notify the Grantee (or his legal or personal representatives where applicable) in writing informing him of the adjusted Subscription Price thereafter in effect and/or the revised number of new Shares thereafter to be issued on the exercise of the ESOS Option;

(iv) in determining a Grantee's entitlement to subscribe for new Shares, any fractional entitlement will be disregarded; and

(v) if fraction arises upon calculation of the adjusted number of Shares under ESOS Option, the adjusted number so calculated shall be rounded down to the nearest whole number.

Any adjustments to the Subscription Price and/or the number of new Shares comprised in the ESOS Options so far as unexercised other than bonus issue, must be confirmed in writing by the external auditors of the Company or the Company's Adviser.

Should there be other circumstances which give rise to a consideration for adjustments to the Subscription Price or the number of new Shares in favour of all Grantees, but it is decided that no adjustments will be made, such decision much be made known to all the Grantees via a timely notice subject to compliance with the Listing Requirements.

14.2 In addition to By-Law 14.1 and not in derogation thereof, the Subscription Price and the number of new Shares relating to the ESOS Options so far as unexercised shall from time to time be adjusted in accordance with the following relevant provisions in consultation with an Auditor and/or Adviser of the Company:-

(a) if and whenever a Share by reason of any consolidation or subdivision or conversion shall have a different par value, the Subscription Price shall be adjusted and the additional number of new Shares relating to the ESOS Option to be issued shall be calculated in accordance with the following formula:-

$$\text{New Subscription Price} = S \times \left( \frac{\text{Revised par value for each Share}}{\text{Original par value for each Share}} \right)$$

Where S = existing Subscription Price

$$\text{Number of Additional Shares} = T \times \left( \frac{\text{Original par value for each Share}}{\text{Revised par value for each Share}} \right) - T$$

Where T = existing number of Shares relating to the ESOS Option

Each such adjustment will be effective from the close of business on the Market Day next following the date on which the consolidation or subdivision or conversion becomes effective (being the date on which the Shares are traded on Bursa Securities at the new par value) or such other date as may be prescribed by Bursa Securities.

(b) If and whenever the Company shall make any issue of new Shares to ordinary shareholders credited as fully paid, by way of bonus issue or capitalisation of profits or reserves (whether of a capital or income nature and including any share premium account and capital redemption reserve fund), the Subscription Price shall be adjusted by multiplying it by the following fraction:-

$$\frac{A}{A + B}$$

and the additional number of new Shares relating to the ESOS Option to be issued shall be calculated as follows:-

$$\text{Number of Additional Shares} = \left[ T \times \left[ \frac{A + B}{A} \right] \right] - T$$

where:

A = the aggregate number of issued and fully paid-up Shares on the entitlement date (namely the date as at the close of business on which shareholders must be registered in order to be entitled to any dividends, rights, allotments or other distributions) immediately before such bonus issue or capitalisation issue;

B = the aggregate number of new Shares to be issued pursuant to any allotment to ordinary shareholders credited as fully paid by way of capitalisation of profits or reserves (whether of a capital or income nature and including any share premium account and capital redemption reserve fund); and

T = existing number of Shares relating to the ESOS Option.

Each such adjustment will be effective (if appropriate, retroactively) from the commencement of the day next following the books closure date for such issue.

(c) If and whenever the Company shall make:-

(i) a Capital Distribution (as defined below) to ordinary shareholders whether on a reduction of capital or otherwise (save and except any capital reduction involving the cancellation of capital which is lost or unrepresented by available assets); or

(ii) any offer or invitation to its ordinary shareholders whereunder they may acquire or subscribe Shares by way of rights; or

(iii) any offer or invitation to ordinary shareholders by way of rights whereunder they may acquire or subscribe for securities convertible into Shares or securities with rights to acquire or subscribe for Shares,

then and in respect of each such case, the Subscription Price shall be adjusted by multiplying it by the following fraction:

$$\frac{C - D}{C}$$

and in respect of the case referred to in By-Law 14.2(c)(ii) hereof, the number of additional new Shares comprised in the ESOS Option to be issued shall be calculated as follows:-

$$\text{Number of Additional Shares} = \left[ T \times \left[ \frac{C}{C - D^*} \right] \right] - T$$

where:

T = existing number of Shares relating to the ESOS Option;

C = the current market price of each Share at the close of business on the Market Day immediately preceding the date on which the Capital Distribution or, as the case may be, the offer or invitation is publicly announced to Bursa Securities or (falling any such announcement) immediately preceding the date of the Capital Distribution or, as the case may be, of the offer or invitation; and

D = (aa) in the case of an offer or invitation to acquire or subscribe for new Shares by way of rights under By-Law 14.2(c)(ii) above or for securities convertible into Shares or securities with rights to acquire or subscribe for new Shares under By-Law 14.2(c)(iii) above, the value of rights attributable to one (1) Share (as defined below); or

(bb) in the case of any other transaction falling within By-Law 14.2(c) hereof, the fair market value, as determined by an Auditor and/or Adviser of the Company, of that portion of the Capital Distribution attributable to one (1) Share.

For the purpose of definition (aa) of D above, the "value of the rights attributable to one (1) Share" shall be calculated in accordance with the formula:-

$$\frac{C - E}{F + 1}$$

where:

C = as C above;

E = the subscription price for one (1) additional Share under the terms of such offer or invitation or subscription price for one (1) addition Share upon conversion of the convertible securities or exercise of such rights to acquire or subscribe for one (1) Share under the offer or invitation;

F = the number of existing Shares which it is necessary to hold in order to be offered or invited to acquire or subscribe for one (1) additional Share or security convertible into rights to acquire or subscribe for one (1) additional Share; and

D* = the value of rights attributable to one (1) Share (as defined below).

For the purpose of definition D* above, the "value of rights attributable to one (1) Share" shall be calculated in accordance with the formula:-

$$\frac{C - E^*}{F^* + 1}$$

where:-

C = as C above;

E* = the subscription price for one (1) additional Share under the terms of such offer or invitation; and

F* = the number of existing Shares which it is necessary to hold in order to be offered or invited to acquire or subscribe for one (1) additional Share.

For the purpose of this By-Law 14.2(c) hereof, "Capital Distribution" shall (without prejudice to the generality of that expression) include distributions in cash or specie (other than dividends) or by way of issue of new Shares (other than an issue falling under By-Law 14.2(b) hereof) or other securities credited as fully or partly paid up by way of capitalisation of profits or reserves (whether of a capital or income nature and including any share premium account or capital redemption reserve fund).

Any dividend charged or provided for in the audited financial statements of the Company for any period shall (whenever paid and howsoever described) be deemed to be a Capital Distribution unless it is paid out of the aggregate of the net profits attributable to the ordinary shareholders as shown in the audited consolidated statements of comprehensive income of the Company.

Such adjustments will be effective (if appropriate, retroactively) from the commencement of the Market Day immediately following the entitlement date for the above transactions.

(d) If and whenever the Company makes an allotment to its ordinary shareholders as provided in By-Law 14.2(b) above and also makes an offer or invitation to its ordinary shareholders as provided in By-Law 14.2(c)(ii) or (iii) above and the entitlement date for the purpose of the allotment is also the book closure date for the purpose of the offer or invitation, the Subscription Price shall be adjusted by multiplying it by the following fraction:-

$$\frac{(G \times C) + (H \times I)}{(G + H + B) \times C}$$

and where the Company makes an allotment to its ordinary shareholders as provided in By-Law 14.2(b) above and also makes an offer or invitation to its ordinary shareholders as provided in By-Law 14.2(c)(ii) above and the entitlement date for the purpose of the allotment is also the book closure date for the purpose of the offer or invitation, the number of additional new Shares relating to the ESOS Option to be issued shall be calculated as follows:-

$$\text{Number of Additional Shares} = \left[ T \times \left[ \frac{(G + H^* + B) \times C}{(G \times C) + (H^* \times I^*)} \right] \right] - T$$

B = as B above; and

C = as C above;

G = the aggregate number of issue and fully paid-up Shares on the book closure date

H = the aggregate number of new Shares under an offer or invitation to acquire or subscribe for Shares by way of rights or under an offer or invitation by way of rights to acquire or subscribe for securities convertible into Shares or rights to acquire or subscribe for Shares, as the case may be;

H* = the aggregate number of new Shares under an offer or invitation to acquire or subscribe for Shares by way of rights;

| | | |
|---|---|---|
| I | = | the subscription price of one (1) additional Share under the offer or invitation to acquire or subscribe for Shares or the exercise price on conversion of such securities or exercise of such rights to acquire or subscribe for one (1) additional Share, as the case may be; |
| I* | = | the subscription price of one (1) additional Share under the offer or invitation to acquire or subscribe for Shares; |
| T | = | as T above. |

Such adjustment will be effective (if appropriate, retroactively) from the commencement of the Market Day immediately following the book closure date for such issue.

(e) If and whenever the Company makes any offer or invitation to its ordinary shareholders to acquire or subscribe for Shares as provided in By-Law 14.2(c)(ii) above together with an offer or invitation to acquire or subscribe for securities convertible into Shares or rights to acquire or subscribe for securities convertible into Shares or security with rights to acquire or subscribe for Shares as provided in By-Law 14.2(c)(iii) above, the Subscription Price shall be adjusted by multiplying it by the following fraction:-

$$\frac{(G \times C) + (H \times I) + (J \times K)}{(G + H + J) \times C}$$

and the number of additional Shares comprised in the ESOS Option to be issued shall be calculated as follows:-

$$\text{Number of Additional Shares} = \left[ T \times \left[ \frac{(G + H^*) \times C}{(G \times C) + (H^* \times I^*)} \right] \right] - T$$

where:

| | | |
|---|---|---|
| C | = | as C above; |
| G | = | as G above; |
| H | = | as H above; |
| H* | = | as H* above; |
| I | = | as I above; |
| I* | = | as I* above; |
| J | = | the aggregate number of Shares to be issued to its ordinary shareholders upon conversion of such securities or exercise of such rights to subscribe for Shares by the ordinary shareholders; |
| K | = | the exercise price on conversion of such securities or exercise of such rights to acquire or subscribe for one (1) additional Share; and |
| T | = | as T above. |

Such adjustment will be effective (if appropriate, retroactively) from the commencement of the Market Day immediately following the book closure date for the above transactions.

(f) If and whenever the Company makes an allotment to its ordinary shareholders as provided in By-Law 14.2(b) above and also makes an offer or invitation to its ordinary shareholders to acquire or subscribe for Shares as provided in By-Law 14.2(c)(ii) above, together with rights to acquire or subscribe for securities convertible into Shares or with rights to acquire or subscribe for Shares as provided in By-Law 14.2(c)(iii) above, and the entitlement date for the purpose of the allotment is also the book closure for the purpose of offer or invitation, the Subscription Price shall be adjusted by multiplying it by the following fraction:-

$$\frac{(G \times C) + (H \times I) + (J \times K)}{(G + H + J + B) \times C}$$

and the number of additional Shares relating to the ESOS Option to be issued shall be calculated as follows:-

$$\text{Number of Additional Shares} = \left[ T \times \left[ \frac{(G + H^* + B) \times C}{(G \times C) + (H^* \times I^*)} \right] \right] - T$$

| | | |
|---|---|---|
| B | = | as B above; |
| C | = | as C above; |
| G | = | as G above; |
| H | = | as H above; |
| H* | = | as H* above; |
| I | = | as I above; |
| I* | = | as I* above; |
| J | = | as J above; |
| K | = | as K above; and |
| T | = | as T above. |

Such adjustment will be effective (if appropriate, retroactively) from the commencement of the Market Day immediately following the book closure date for the above transaction.

(g) If and whenever (otherwise than pursuant to a rights issue available to all ordinary shareholders and requiring an adjustment under By-Laws 14.2(c)(ii), (c)(iii), (d), (e) or (f) above), the Company shall issue either any Shares or any securities convertible into Shares or any rights to acquire or subscribe for Shares, and in any such case, the Total Effective Consideration per Share (as defined below) is less than ninety percent (90%) of the Average Price for one (1) Share (as defined below) or, as the case may be, the price at which the Shares will be issued upon conversion of such securities or exercise of such rights is determined, the Subscription Price shall be adjusted by multiplying it by the following fraction:-

$$\underline{L + M}$$

L + N

where:

| | | |
|---|---|---|
| L | = | the number of Shares in issue at the close of business on the Market Day immediately preceding the date on which the relevant adjustment becomes effective; |
| M | = | the number of Shares which the Total Effective Consideration (as defined below) would have purchased at the Average Price (as defined below) (exclusive of expenses); and |
| N | = | the aggregate number of Shares so issued or, in the case of securities convertible into Shares or rights to acquire or subscribe for Shares, the maximum number (assuming no adjustment of such rights) of Shares issuable upon full conversion of such securities or the exercise in full of such rights. |

For the purposes of By-Law 14.2(g), the "Total Effective Consideration" shall be determined by the Board with the concurrence of an auditor and/or Adviser of the Company shall be:-

(a) in the case of the issue of Shares, the aggregate consideration receivable by the Company on payment in full for such Shares; or

(b) in the case of the issue by the Company of securities wholly or partly convertible into Shares, the aggregate consideration receivable by the Company on payment in full for such securities or such part of the securities as is convertible together with the total amount receivable by the Company upon full conversion of such securities (if any); or

(c) in the case of the issue by the Company of securities with rights to acquire or subscribe for Shares, the aggregate consideration attributable to the issue of such rights together with the total amount receivable by the Company upon full exercise of such rights;

in each case without any deduction of any commissions, discounts or expenses paid, allowed or incurred in connection with the issue thereof, and the "Total Effective Consideration per Share" shall be the Total Effective Consideration divided by the number of new Shares issued as aforesaid or, in the case of securities convertible into new Shares, by the maximum number of Shares issuable on full conversion of such securities or on exercise in full of such rights.

For the purpose of By-Law 14.2(g), the Average Price of a Share shall be the average market price of one (1) Share as derived from the last dealt prices for one (1) or more board lots of the Shares as quoted on the Bursa Securities on the Market Days comprised in the period used as a basis upon which the issue price of such Shares is determined.

Each such adjustment will be calculated (if appropriate, retroactively) from the close of business on Bursa Securities on the Market Day immediately following the date on which the issue is announced, or (failing any such announcement) on the Market Day immediately following the date on which the Company determines the offering price of such Shares. Each such adjustment will be effective (if appropriate retroactively) from the commencement of the Market Day immediately following the date of the completion of the above transaction.

14.3 The provisions of this By-Law shall not apply where the alteration in the capital structure of the Company arises from:-

(a) the issue of securities as consideration for an acquisition;

(b) a special issue of new Shares to Bumiputera parties approved by the Ministry of International Trade and Industry, Malaysia and/or other Government authorities to comply with the Government policy on Bumiputera capital participation;

(c) a special issue, private placement or restricted issue of new Shares by the Company;

(d) a share buy-back arrangement by the Company and the cancellation of all or a portion of the Shares pursuant to the relevant provision of the Act;

(e) an issue of new Shares arising from the exercise of any conversion rights attached to securities convertible to new Shares or upon exercise of any other rights including warrants (if any) issued by the Company;

(f) an issue of new Shares upon the exercise of ESOS Options pursuant to the Scheme;

(g) an issue by the Company of Shares or of securities convertible into Shares or securities with rights to acquire or subscribe for Shares to its officers, including directors, or employees of the Company or any of its subsidiaries pursuant to purchase or option schemes approved by the Shareholders in general meeting; and

(h) any issue of Shares by the Company (other than bonus and rights issue) pursuant to a dividend reinvestment scheme undertaken in accordance with the Listing Requirements or for any purpose whatsoever where the aggregate issues of which in any twelve (12) months do not exceed ten percent (10%) of the outstanding issued and paid-up share capital of the Company pursuant to the provision of Section 132D of the Act.

14.4 Upon any adjustment being made, the ESOS Committee shall give notice in writing within thirty (30) days from the date of adjustment to the Grantee, or his legal or personal representatives where the Grantee is deceased, to inform him of the adjustment and the event giving rise thereto.

14.5 The decision of the ESOS Committee as to whether any adjustment shall be made or not made to the Subscription Price and/or the number of new Shares comprised in the ESOS Option or any portion thereof pursuant to this By-Law 14 is final, binding and conclusive.

## 15. LISTING AND QUOTATION OF SHARES

15.1 The new Shares to be allotted to the Grantee will not be listed or quoted on Bursa Securities until the ESOS Option is exercised in accordance with the provisions of By-Law 9 whereupon the Company shall:-

(a) issue and/or allot the Shares;

(b) despatch a notice of allotment to the Grantee; and

(c) apply for the quotation of such Shares, 15.2 The Company and the ESOS Committee shall not under any circumstances be held liable for any costs, losses and damages whatsoever and however relating to the delay on the part of the Company in allotting and issuing the Shares or in procuring the Bursa Securities to list the Shares for which the Grantee is entitled to subscribe.

**16. ADMINISTRATION OF THE SCHEME**

16.1 The ESOS Committee shall implement and administer the Scheme in such manner as it shall in its discretion deem fit. The ESOS Committee shall comprise such persons duly appointed and authorised by the Board from time to time and shall be vested with such powers and duties as are conferred upon it by the Board including but not limited to the powers to:-

(a) subject to the provisions of the Scheme, do all such acts and things and enter into and/or cause the Company to enter into any transactions, agreements, deeds and documents, arrangements or undertakings construe and interpret the Scheme and ESOS Options granted under it, to define the terms therein and to recommend to the Board to establish, amend and revoke guidelines, rules and regulations or impose or waive any terms and conditions for the implementation and administration of the Scheme and to give effect to the provisions of the Scheme and/or to enhance the benefit of the Offers to the Selected Persons as the ESOS Committee in its discretion deems fit, necessary and/or expedient for the implementation and administration of the Scheme. The ESOS Committee in the exercise of this power may correct any defect, supply any omission, or reconcile any inconsistency in the Scheme or in any agreement providing for an ESOS Option in a manner and to the extent it shall deem necessary to expedite and make the Scheme fully effective; and

(b) determine all questions of policy and expediency that may arise in the administration of the Scheme and generally exercise such powers and perform such acts as are deemed necessary or expedient to promote the best interests of the Company.

16.2 The Board shall have power from time to time to:-

(a) rescind the appointment of any person in the ESOS Committee and appoint his replacement where the Board deems fit;

(b) assume and/or exercise or execute any of the powers and authorities conferred upon the ESOS Committee pursuant to these By-Laws; and

(c) amend, modify or vary the terms of reference of the ESOS Committee.

**17. AMENDMENT AND/OR MODIFICATION TO THE BY-LAWS**

17.1 The ESOS Committee may recommend to the Board who shall have the power at any time and from time to time by resolution to amend and/or modify all or any part of the By-Laws and the Board shall have the power by resolution to add, amend or modify and/or delete all or any of the By-Laws under such recommendation.

17.2 The approval of the shareholders of the Company in general meeting shall not be required in respect of additions, amendments to, or deletions of these By-Laws except that subject to any applicable laws, no addition, amendment or deletion shall be made to these By-Laws without the prior approval of the Company's shareholders in a general meeting which would:-

(a) prejudice any rights which have accrued to any Grantee without his prior consent; or

(b) increase the number of new Shares available under the Scheme beyond the maximum imposed by By-Law 2.1; or

(c) alter any matter which are required to be contained in the By-Laws by virtue of Appendix 6E of the Listing Requirements to the advantage of the Selected Persons.

The ESOS Committee shall within ten (10) Market Days of any modification and/or amendment made pursuant to this By-Law notify the Grantee in writing of any modification and/or amendment made pursuant to this By-Law.

17.3 Upon amending and/or modifying all or any of the provisions of the Scheme, the Company shall submit to the Bursa Securities no later than five (5) Market Days after the effective date of the amendment to the By-Laws, a letter confirming that the said amendment and/or modification complies with the Listing Requirements and Rules of Bursa Depository.

**18. TERMINATION OF ESOS OPTIONS**

18.1 In the event of cessation or termination of employment or appointment of a Grantee with the Group for whatever reason, including but not limited to the receipt of a letter of termination or serving of a notice of resignation by the Grantees, prior to the exercise of his ESOS Options or prior to full exercise of his ESOS Options, as the case may be, such ESOS Option shall cease immediately and become null and void on the date of such cessation or termination without any claim against the Company provided always that, subject to the approval of the ESOS Committee in its discretion, where the Grantee ceases his employment or appointment with the Group by reason of:-

(a) his retirement at or after attaining normal retirement age under the Group's retirement policy; or

(b) retirement before that age; or

(c) ill-health, injury, physical or mental disability; or

(d) redundancy or retrenchment, pursuant to the acceptance by that Grantee of a voluntary separation scheme offered by the Group; or

(e) non-renewal of fixed term contract, not due to a breach of contract on the part of the Grantee; or

(f) transfer to an associate of the Group (which definition shall be that which is adopted by the Malaysian Accounting Standards Board); or

(g) divestment of any company from the Group; and/or

(h) any other reasons which are acceptable to the ESOS Committee,

a Grantee may exercise his unexercised ESOS Options for such period as may be determined by the ESOS Committee within the relevant Option Period provided always that such exercise shall always be subject to any restriction in the Offer Letter on the maximum percentage of the Grantee's ESOS Options that may be exercisable within each year of the Scheme (unless otherwise approved by the ESOS Committee). All unexercised or partially exercised ESOS Options of such Grantee shall become null and void after the expiry of such period.

18.2 If a Grantee ceases his employment or appointment with the Group by reason of his resignation his remaining unexercised ESOS Options shall cease with immediate effect and become null and void on the effective date of such cessation. For the avoidance of any doubt, the date of acceptance of a Grantee's resignation by the Group, shall be deemed to be the effective date when a Grantee ceases his employment or appointment with the Group.

18.3 An ESOS Option shall immediately become void and be of no further force and effect upon the Grantee being adjudicated a bankrupt.

18.4 In the event where a Grantee dies before the expiration of the Option Period and at the time of his death held unexercised ESOS Options, such unexercised ESOS Options may be exercised by the legal or personal representative(s) of the Grantee after the date of his death provided that such exercise shall be no later than twenty four (24) months thereafter unless otherwise approved by the ESOS Committee provided always that such exercise shall always be subject to any restriction in the Offer Letter on the maximum percentage of the Grantee's ESOS Options that may be exercisable within each year of the Scheme (unless otherwise approved by the ESOS Committee) and provided further that no ESOS Option shall be exercised after the expiry of the Option Period. All ESOS Options remaining unexercised thereafter shall automatically lapse and become null and void.

18.5 Any ESOS Option that has lapsed and become null and void pursuant to this By-Law 18 shall at the discretion of the ESOS Committee be re-allocated to other Eligible Person.

## 19. LIQUIDATION OF THE COMPANY

19.1 Upon the receipt of a court order of the winding-up of the Company, all Offers shall be deemed revoked and be null and void and all unexercised or partially exercised ESOS Options shall lapse and be null and void and of no further force and effect, and this Scheme shall terminate.

19.2 Notwithstanding the above, the ESOS Committee will consider, to the extent permitted by law, whether or not to allow exercise of any unexercised or partially exercised ESOS Options subject to such terms and conditions as may be prescribed and will take into account all circumstances on case-to-case basis, including (but not limited to) the contributions of the Selected Persons.

## 20. DURATION OF THE SCHEME

The Scheme shall be in force for a period of five (5) years commencing from the effective date of the implementation of the Scheme, which shall be the date of full compliance with all relevant requirements including the following:-

(i) submission of the final copy of the By-Laws to Bursa Securities;

(ii) receipt of approval-in-principle for the issuance, and listing of and quotation for the Shares to be issued under the Scheme from Bursa Securities;

(iii) procurement of shareholders' approval for the Scheme;

(iv) receipt of approval of any other relevant authorities, where applicable; and

(v) fulfilment of all conditions attached to the above approvals, if any.

On or before the expiry of the Scheme, the Board shall have the absolute discretion, without having to obtain sanction, approval or authorisation of the Company's shareholders in a general meeting, to extend the duration of the Scheme upon recommendation of the ESOS Committee, provided that the initial period of the Scheme and such extension of the Scheme made pursuant to this By-Law shall not in aggregate exceed the duration of ten (10) years from the Effective Date. In the event the Scheme is extended in accordance with this provision, the ESOS Committee shall furnish a written notification to all Grantees and the Company shall make necessary announcements to Bursa Securities prior to the proposed extension of the Scheme.

**21. TERMINATION OF THE SCHEME**

21.1 Subject to compliance with the Listing Requirements, guidelines or directives issued by Bursa Securities and/or any other relevant authorities, the Company may at any time during the Duration of the Scheme terminate the Scheme and shall immediately announce to Bursa Securities the:-

(a) effective date of termination of the Scheme;

(b) number of ESOS Options exercised or Shares vested; and

(c) reasons for termination of the Scheme,

whereupon all Offers shall be deemed revoked and be null and void and any unexercised ESOS Options shall be deemed to cease to be capable of being exercised and be null and void.

21.2 Notwithstanding the above, the Company may implement more than one (1) scheme provided that the aggregate number of Shares available under all the schemes implemented by the Company is not more than fifteen percent (15%) of its issued and paid-up share capital (excluding treasury shares) at any one time or such lower or higher limit in accordance with any prevailing guideline issued by Bursa Securities or any other relevant authorities amended from time to time.

**22. DISPUTES OR DIFFERENCES**

In case any dispute or difference shall arise between the Board and/or ESOS Committee, and an Eligible Person, Selected Person and/or Grantee as to any provisions contained in these By-Laws, the Board and/or the ESOS Committee shall determine such dispute or difference by a decision given to the Eligible Person, Selected Person and/or Grantee. The said decision shall be final and binding on the parties unless the Eligible Person, Selected Person and/or Grantee within fourteen (14) calendar days of the receipt thereof by a notice to the Board and/or the ESOS Committee, disputes the same in which case such dispute or difference shall be referred to the decision of the Adviser and/or Auditor (as selected by the Board and/or ESOS Committee at its absolute discretion) (acting as experts and not as arbitrators) whose decision shall be final and binding in all respects. The Board and the ESOS Committee shall not be required to furnish any reasons for any decision or determination made by it except as may be required by the relevant authorities

**23. COSTS AND EXPENSES**

All fees, costs and expenses incurred in relation to the Scheme including but not limited to the fees, costs and expenses relating to the allotment and issue of new Shares pursuant to the exercise of any ESOS Option shall be borne by the Company.

**24. SCHEME OF ARRANGEMENT, AMALGAMATION, RECONSTRUCTION, ETC.**

24.1 Notwithstanding the maximum percentage of the Grantee's ESOS Options that may be exercisable within each year of the Scheme as set out in the Offer Letter and subject to the discretion of the ESOS Committee, in the event of the court sanctioning a compromise or arrangement between DNeX and its members proposed for the purpose of, or in connection with, a scheme of arrangement and reconstruction of DNeX under Section 176 of the Act or its amalgamation with any other company or companies under Section 178 of the Act or the Company decides to merge with other company or companies, a Grantee may exercise in full or in part any ESOS Option to which the Grantee is entitled commencing from the date upon which the compromise or arrangement is sanctioned by the court and ending with the date upon which it becomes effective, provided always that no ESOS Option shall be exercised after the expiry of the Option Period.

24.2 Upon the compromise or arrangement becoming effective, all ESOS Options remaining unexercised thereafter shall automatically lapse and become null and void.

**25. SCHEME NOT A TERM OF EMPLOYMENT**

This Scheme does not form part of or constitute or shall in any way to be construed as a term or condition of employment of any employee within the Group. This Scheme shall not confer or be construed to confer on any employee within the Group any special right or privilege over and above the employee's terms and conditions of employment under which the employee is employed nor any rights in addition to compensation or damages that the employee may be normally entitled to arising from the cessation of such employment for any reason whatsoever.

**26. NO COMPENSATION**

26.1 Notwithstanding any provisions of these By-Laws:-

(a) this Scheme shall not form part of any contract of employment between any company of the Group and any Employee or Executive Director of the Group and the rights of any Grantee under the terms of his office and employment with the Company or any company of the Group shall not be affected by his participation in the Scheme or afford such Grantee any additional rights to compensation or damages in consequence of the termination of such office or employment for any reason;

(b) this Scheme shall not confer on any person any legal or equitable rights (other than those constituting the ESOS Option themselves) against the Company or any company of the Group or any members of the ESOS Committee directly or indirectly or give rise to any cause of action at law or in equity against the Company or the Group; and

(c) a Grantee who ceases to hold office or employment shall not be entitled to any compensation for the loss of any right or benefit or prospective right or benefit under the Scheme which he might otherwise have enjoyed whether such compensation is claimed by way of damages for wrongful dismissal, breach of contract or by way of compensation for loss of office.

26.2 No Employees and Executive Directors (including Eligible Person, Selected Person or Grantee) or their legal or personal representatives shall bring any claim, action or proceedings against the Board, the Company or the ESOS Committee or any party for compensation, loss or damages whatsoever and howsoever arising including but not limited to the suspension of their rights to exercise their ESOS Options or their ESOS Options ceasing to be valid pursuant to the provisions of these By-Laws.

**27. ARTICLES OF ASSOCIATION OF THE COMPANY**

Notwithstanding the terms and conditions contained herein, if a situation of conflict should arise between the Scheme and the Articles, the provisions of the Articles shall at all times prevail save and except where such provisions of the By-Laws are included pursuant to the Listing Requirements.

## 28. TAXES

For the avoidance of doubt, all other costs, fees, levies, charges and/or taxes (including without limitation income tax) that are incurred by an allottee of the Shares, pursuant or relating to the grant of the Offers and exercise of the ESOS Options, and any holding or dealing of such ESOS Options (such as (but not limited to) brokerage commissions and stamp duty) shall be borne by that allottee for his own account, and the Company shall not be liable for any one or more of such costs, fees, levies, charges and/or taxes.

## 29. SEVERABILITY

Any term, condition, stipulation or provision in these By-Laws which is illegal, void, prohibited or unenforceable shall be ineffective to the extent of such illegality, voidness, prohibition or unenforceability without invalidating the remaining provisions hereof, and any such illegality, voidness, prohibition or unenforceability shall not invalidate or render illegal, void or unenforceable any other term, condition, stipulation and provision herein contained.

## 30. GOVERNING LAW AND JURISDICTION

30.1 The Scheme shall be governed by and construed in accordance with the laws of Malaysia. The Grantee, by accepting the ESOS Options in accordance with the By-Laws and terms of the Scheme, irrevocably submits to the exclusive jurisdiction of the courts of Malaysia.

30.2 In order to facilitate the making of any Offer under this Scheme, the ESOS Committee may provide for such special terms to the Selected Persons who are employed by any corporation in the Group in a particular jurisdiction or who are nationals of any particular jurisdiction, that is outside Malaysia, as the ESOS Committee may consider necessary or appropriate for the purposes of complying with differences in local law, tax, policy or custom of that jurisdiction. The ESOS Committee may further approve such supplements to or amendments, restatements or alternative versions of the Scheme as it may consider necessary or appropriate for such purposes without thereby affecting the terms of the Scheme as in effect for any other purpose, and the appropriate officer of the Company may certify any such document as having been approved and adopted in the same manner as the Scheme. No such special terms, supplements, amendments or restatements, however, shall include any provisions that are inconsistent with the terms of this Scheme, as then in effect, unless this Scheme has been amended to eliminate such inconsistency. Notwithstanding the above, any Offer made to such Selected Persons pursuant to the Scheme shall be valid strictly in Malaysia only unless specifically mentioned otherwise by the ESOS Committee in the Offer.

30.3 No action has been or will be taken by the Company to make the Offer valid in any country or jurisdiction other than Malaysia or to ensure compliance of the Offer with all applicable laws and regulations in any other country or jurisdiction other than Malaysia. No action has or will be taken also by the Company to ensure compliance by the Selected Persons to whom the Offer is granted, with all applicable laws and regulations in such other country or jurisdiction in which they will be granted the Offers.

30.4 Any Selected Person to whom the Offer is granted is required to ensure that they comply with all applicable laws and regulations in each country or jurisdiction in or from which they are granted the Offers. By participating in the Scheme, each Selected Person has represented, warranted and agreed that they have and will continue to observe all applicable laws and regulations in the jurisdiction in which they will be granted the Offers.

**31. INSPECTION OF THE AUDITED ACCOUNTS**

To the extent permitted by the Listing Requirements and prevailing laws and guidelines issued by the relevant authorities, all Grantees shall be entitled to inspect a copy of the latest audited financial statements of the Company, which shall be made available on the Bursa Securities' website as well as the Company's website.

**32. NOTICE**

Any notice which under the Scheme is required to be given or served upon a Selected Person or Grantee shall be in writing and be deemed to be sufficiently given or served either delivered by hand or sent to the Selected Person or Grantee at his place of employment or at the last known address known by the Company as being his address or by electronic mail.

**33. ERRORS AND OMISSIONS**

If in consequences of an error or omission, the ESOS Committee discovers or determines that:

(a) an Eligible Person who was selected as a Selected Person has not been given the opportunity to participate in the Scheme on any occasion;

(b) an Eligible Person was erroneously selected as a Selected Person; or

(c) the number of ESOS Options granted to any Selected Person or Shares allotted to any Grantee on any occasion is found to be incorrect,

and such error or omission cannot be corrected, the ESOS Committee may do all such acts and things to rectify such error or omission including, but not limited to, all acts and things to ensure that the Eligible Person is given the opportunity to participate in the Scheme and/or to withdraw the Offer given to the Employee or Executive Director who was erroneously selected as a Selected Person and/or to ensure that the Selected Person is given the correct number of ESOS Options or credited with the correct number of Shares to which he is entitled.

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## APPENDIX IX – OGPC GROUP COMPARABLE COMPANIES

Below are the OGPC Group Comparable Companies which are identified by Protégé, the independent market researcher, based on the following criteria:-

(a) registered a turnover of over RM80 million based on latest financial information;

(b) involved in the provision of pumps or valves; and

(c) caters to the O&G industry.

| Company name | Principal activities | Market capitalisation[(a)] | Revenue[(b)] | PAT[(b)] | PER[(c)] |
|---|---|---|---|---|---|
| | | RM million | RM million | RM million | (times) |
| Pantech Group Holdings Berhad ("**Pantech**") | Pantech, currently listed on the Main Market of Bursa Securities, is involved in the manufacturing/ trading of pipes, fittings, flanges, valves and other components that serve a wide range of industries, including but not limited to O&G, marine and shipbuilding, palm oil, power plants, etc. Pantech is involved in the trading and supply of valves through its subsidiary, Pantech Corporation Sdn Bhd.<br><br>For information purpose, for the financial year ended 28 February 2015, Pantech recorded RM575.7 million in revenue, of which RM298.0 million was generated from its trading segment and RM227.8 million was contributed from its manufacturing segment. | 313.79 | 525.77 | 43.15 | 9.6 |
| Tanjung Offshore Berhad ("**Tanjung**") | Tanjung, currently listed on the Main Market of Bursa Malaysia Securities Berhad, is principally involved in the provision of engineering equipment, equipment maintenance services, drilling and production platform services to the O&G and related industries in Malaysia and the region. Tanjung is involved in the provision of pumps and valves through its subsidiary, Tanjung Offshore Services Sdn Bhd ("**TOS**"). TOS, a wholly owned PETRONAS-licensed subsidiary of Tanjung, offers services such as customised engineered equipment packages, drilling and platform services, project management of contracts, spares and parts for equipment and other related services. On top of that, TOS is also an exclusive agent in Malaysia for various Original Equipment Manufacturers ("**OEM**") such as pumps, control systems, switchgears, instrumentations and valves that are widely used in the upstream and downstream activities of the O&G industry.<br><br>For information purpose, for the FYE 2014, Tanjung recorded RM107.4 million in revenue, of which RM49.8 million was contributed from its products and services segment, RM24.2 million was generated from its maintenance services segment, and RM33.5 million was contributed from its engineered packages segment. | 136.46 | 107.34 | 1.06 | N/A[(d)]* |
| Unimech Group Berhad ("**Unimech**") | Unimech, currently listed on the Main Market of Bursa Securities, is principally involved in designing and manufacturing of industrial and residential valves, strainers, steel flanges, pipe fittings, rubber expansion bellows, vibration absorption sheets, roller, gaskets, as well as polyurethane casting and extrusion products. On top of that, Unimech is also involved in the importation and distribution of engineering equipment and components such as burners and broilers, heat exchanger tube cleaning equipment and descaling equipment, valves and gauges, etc. Other services provided by Unimech include overhaul of engineering equipment and parts replacement, consultancy on air pollution control, exhaust stock design, plant and process monitoring and recording systems. Unimech is involved in the trading of industrial valves for O&G industry in Malaysia through Unimech Valves Technology Sdn Bhd. | 148.05 | 239.40 | 18.04 | 11.9 |

| | | | | | |
|---|---|---|---|---|---|
| | For information purpose, for the FYE 2014, Unimech recorded RM238.0 million in revenue, of which RM193.1 million was generated from its valves, instrumentation and fittings segment, RM23.9 million from its pumps segment. | | | | |
| | **Minimum** | | | | 9.6* |
| | **Average** | | | | 10.8* |
| | **Maximum** | | | | 11.9* |

*Source: OGPC Group Comparable Companies are extracted from the Executive Summary of the IMRR.*

*Notes:-*

*(a) Based on the market capitalisation as at the LPD as extracted from Bloomberg.*

*(b) Based on the latest audited financial statements.*

*(c) Based on the average daily last market price beginning from first trading day of year 2015 up to and including the LPD against the average daily trailing twelve (12)-months EPS from the first trading day of the year 2015 up to and including the LPD.*

*(d) As at the LPD, Tanjung's PER is N/A, mainly due to the deteriorating performance of Tanjung, which amongst others, maybe caused by the following:-*

*Tanjung, the O&G services provider has ventured into new businesses after selling its core business in marine vessel services in 2012. The new businesses have the following status as per Tanjung's general announcement to Bursa Securities on 5 June 2015:-*

*(i) Tanjung's deals in China and Philippines were irregular as these deals had bypassed corporate protocol according to the forensic audit done by Ferrier Hodgson MH Sdn Bhd. Ferrier Hodgson MH Sdn Bhd noted that RM2.7 million out of RM3.2 million spent venturing into the ethylene propylene diene monomer project in China, had been as for the professional fees which were deemed as excessive with no proper corporate protocol being followed. Similarly to the RM6.2 million spent into Tanjung's chromite mine project in the Philippines in 2013, no proper corporate protocol was followed;*

*(ii) Tanjung has spent approximately GBP6.7 million to purchase a UK-based company, Wavenet Investments Ltd to diversify its income stream from the O&G industry. A further GBP4.8 million was spent for property refurbishment which there appears to be no physical work on site and this has prompted Tanjung to take action against relevant parties for non-performance and immediate recovery; and*

*(iii) There is an ongoing investigation by the Malaysian Anti-Corruption Commission over allegations of bribery, believed to be linked to the purchase of the remaining 49% in Gas Generators (M) Sdn Bhd.*

* *Exclude outlier.*

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Additionally, AmInvestment Bank has also tabulated an additional list of OGPC Group Comparable Companies based on the following criteria:-

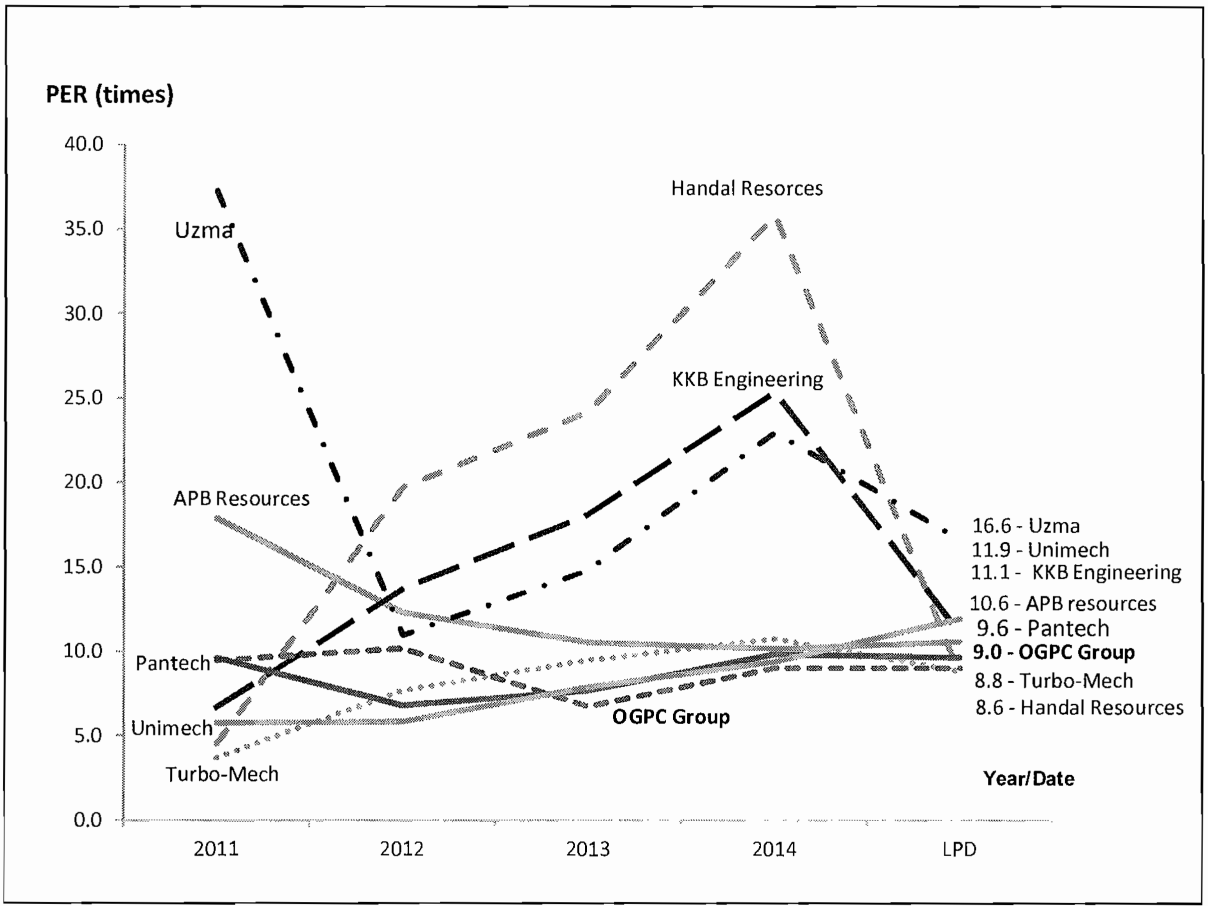
(a) involved in the provision of oil equipment; and

(b) designing and fabrication works in O&G industry and petrochemicals.

| **Company name** | **Principal activities** | **Revenue[(a)]** | **PAT[(a)]** | **PBR[(b)]** | **PER[(c)]** |
|---|---|---|---|---|---|
| | | **RM million** | **RM million** | **(times)** | **(times)** |
| Turbo-Mech Bhd ("**Turbo-Mech**") | Turbo-Mech distributes **rotating equipment for the oil, gas, and petrochemical industries**. The company supplies various products including centrifugal pumps, metering pumps, high pressure gas compressors, high pressure pumps, non-seal pumps, steam turbines, industrial cooling fans and spare parts. | 47.2 | 14.2 | 1.2 | 8.8 |
| Handal Resources Berhad ("**Handal Resources**") | Handal Resources, an investment holding company, provides integrated crane services in Malaysia and Indonesia. It provides **overhaul and maintenance services**; manufactures or **fabricates offshore pedestal cranes**; and provides offshore crane rental services and lifting solutions for workover projects, as well as other services, such as supply of manpower and parts. | 123.8 | 6.2 | 0.5 | 8.6 |
| APB Resources Berhad ("**APB Resources**") | APB Resources, an investment holding company, **fabricates design engineering equipment for the petrochemical process**, chemical, oil palm processing, paper mill, and power generation industries in Malaysia. | 173.2 | 12.1 | 0.8 | 10.6 |
| KKB Engineering Berhad ("**KKB Engineering**") | KKB Engineering fabricates steel, provides civil construction, hot dip galvanising, manufactures liquefied petroleum gas cylinders and cylindrical steel drums and through its subsidiaries, the company has diversified into **fabrication operations in offshore facilities for the O&G** industry. | 202.0 | 23.9 | 1.3 | 11.1 |
| Uzma Bhd ("**Uzma**") | Uzma is an investment holding company. The Company through its subsidiaries works with provision of O&G geoscience and reservoir engineering services, **provision of O&G drilling and operations services and provision of O&G project** and operations services. Uzma's activities also include O&G engineer and personal replacement and management systems. | 473.4 | 40.4 | 1.6 | 16.6 |
| | **Minimum** | | | 0.5 | 8.6 |
| | **Average** | | | 1.1 | 11.1 |
| | **Maximum** | | | 1.6 | 16.6 |

*Source: OGPC Group Comparable Companies details are extracted from Bloomberg.*

Notes:-
(a) *Based on the latest audited financial statements or annual reports.*
(b) *Based on the PBR as at the LPD as extracted from Bloomberg.*
(c) *Based on the average daily last market price beginning from first trading day of year 2015 up to and including the LPD against the average daily trailing twelve (12)-months EPS from the first trading day of the year 2015 up to and including the LPD.*




Source:
*Data is derived from Bloomberg.*

*Please note that the OGPC Group's PER in FYE 2014 and as at the LPD remain unchanged at 9.0 times as the assumption of the OGPC Group Purchase Consideration remain unchanged and the latest audited financial statements for the FYE 2014 is used in calculating the OGPC Group's PER as at the LPD.*

*Tanjung is not included as part of the PER comparables due to negative earnings.*

**Commentary on the PER Comparables graph from FYE 2011 to the LPD**

As shown in the graph above, there was an overall upward PER trend for the OGPC Group Comparables Companies starting from the FYE 2011 at PER ranging from 4 to 18 times (excluding Uzma) to PER ranging from 10 to 36 times in the FYE 2014. After that, there was a downward trend to a PER range of 9 to 17 times as at the LPD.

For your information, Tanjung PERs are excluded from the PER trend analysis due to negative earnings being recorded in 2015. Please refer to Note (d) in the first table of this Appendix IX for more information on Tanjung.

The upward trend of the PER from the FYE 2011 to the FYE 2014 was mainly due to the increase in Brent crude oil price which peaked at USD115 per barrel on 19 June 2014. Subsequently, growth was restrained by the slump in crude oil prices which began around the second half of 2014. On the global front, increasing crude oil production from USA coupled with underperforming demand from Europe and Japan had resulted in crude oil oversupply and accordingly, weighted on the pricing of the said commodity. O&G companies were impacted due to the decline in global oil prices. Hence, the overall downward trend for the OGPC Group Comparables Companies from FYE 2014 to the LPD. Overall, the OGPC Group's PER of 9 times as at the LPD is within the range of 9 to 17 times of other OGPC Group Comparables Companies as at the LPD.

## 1. RESPONSIBILITY STATEMENT

This Circular has been seen and approved by the Board who collectively and individually accept full responsibility for the completeness and accuracy of the information given herein and confirm that after making all reasonable enquiries, there are no false or misleading statements contained in this Circular or other material facts, the omission of which would make any statement in this Circular false or misleading.

This Circular has been prepared based on information furnished to AmInvestment Bank by the Board and management of DNeX. Reasonable care has been taken to ensure that the information contained in this Circular is accurate and that there are no false or misleading statements or other facts, the omission of which would make any statement herein false or misleading.

Information relating to OGPC Group and the Vendors has been obtained from information/ documents provided by the Directors and management of the OGPC Group and publicly available information/documents. The responsibility of the Board shall be to ensure that such information is accurately reproduced in this Circular.

## 2. MATERIAL LITIGATION

### 2.1 DNeX Group

As at the LPD, neither DNeX nor any of its subsidiaries is engaged in any litigation, claim or arbitration, either as plaintiff or defendant, which has a material and adverse effect on the financial position or business of the Group and the Board confirms that there are no proceedings pending or threatened against the Group, or of any facts likely to give rise to any proceedings which might materially and adversely affect the financial position or business of DNeX Group.

### 2.2 OGPC Group

Save as disclosed below, as at the LPD, neither OGPC nor OGPCOG is engaged in any litigation, claim or arbitration, either as plaintiff or defendant, which has a material and adverse effect on the financial position or business of the OGPC Group and the Directors of the OGPC Group confirm that there are no proceedings, pending or threatened against the OGPC Group, or of any facts likely to give rise to any proceedings which might materially and adversely affect the financial position or business of the OGPC Group:

**OGPC v MSET Engineering Corporation Sdn Bhd**
**Shah Alam High Court Suit No. 22NCVC-236-04/2015**

OGPC ("**Plaintiff**") had on 28 April 2015 filed a writ against MSET Engineering Corporation Sdn Bhd ("**Defendant**") at Shah Alam High Court ("**High Court**") in relation to a claim for goods sold and delivered and services rendered for the sum owing to the Plaintiff under invoices amounting to RM1,116,319.29 ("**said Sum**") together with interest of 1% per annum.

The High Court had on 24 August 2015 granted a summary judgment to the Plaintiff and ordered the Defendant to pay to the Plaintiff the said Sum together with interest thereon at the rate of 1% per month on the outstanding invoice calculated after one month's expiry date from the date of payment for each invoice till date of settlement and cost of RM3,000.00.

The solicitors are of the opinion that there is no exposure to liabilities.

Since the Defendant has failed to effect payment of the said Sum to the Plaintiff, the Plaintiff is in the midst of enforcing the summary judgment dated 24 August 2015 by way of winding up proceedings to recover the said Sum.

## 3. MATERIAL CONTRACTS

### 3.1 DNeX Group

Save as disclosed below, DNeX Group has not entered into any material contracts, not being contracts entered into in the ordinary course of business, within the past two (2) years preceding the date of this Circular:-

(a) the SSA;

(b) the Management Services Agreements;

(c) DNeX had on 18 July 2014 entered into a subscription agreement with DNeXPORT Sdn Bhd *(formerly known as Nation Hallmark Sdn Bhd and DNeX Hallmark e-Commerce Sdn Bhd)* ("**DNeXPORT**") for the subscription of 800,000 ordinary shares of RM1.00 each in DNeXPORT at Ringgit Malaysia Eight Hundred Thousand (RM800,000);

(d) DNeX had on 18 July 2014 entered into a shareholders agreement with DNeXPORT and Tengku Mohamad Rizam bin Tengku Abdul Aziz ("**TMR**") to form a strategic partnership via DNeX's and TMR's investment in DNeXPORT to carry on the business which includes but is not limited to the development and operation of a business-to-business e-commerce business portal which will offer various e-commerce solutions and business applications to the small and medium industries and small and medium enterprises market via partnerships with financial institutions both locally and overseas;

(e) DNeXPORT had on 18 July 2014 entered into a trade2cash technology ("**Trade2Cash**") cooperation agreement with Trade-Van Information Services Co for the grant of a non-exclusive right to use the copyright, technical information and know-how of Trade2Cash in connection with the development, operation and sales of the Trade2Cash to be used by any Malaysian banks at a total sum of United States Dollar One Hundred Eighty Six Thousand and Seven Hundred (USD186,700);

(f) DNeXPORT had on 22 July 2014 entered into a collaboration agreement with Malayan Banking Berhad for the collaboration in the marketing and promotion of Malayan Banking Berhad's products and services to DNeXPORT's customers of its Trade2Cash products and services offering subject to the terms and conditions of the collaboration agreement;

(g) DNeX had on 11 December 2014 entered into a share sale and purchase agreement with Dato' Azmi bin Abdullah for 1,530,000 ordinary shares of RM1.00 each in FESB representing 51% of the issued and paid up capital of FESB at Ringgit Malaysia One Million Five Hundred and Thirty Thousand (RM1,530,000);

(h) the Supplemental SSA;

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(i) DNeX Oilfield had entered into the following agreements with Baker Hughes (M) Sdn Bhd ("**BH**"):-

(i) on 31 March 2015 in relation to the sale and purchase agreement for the acquisition of tools and equipment ("**BH's Equipment**") from BH at a total cash consideration of United States Dollar Four Million Two Hundred Seventeen Thousand Three Hundred and Twenty Six (USD4,217,326); and

(ii) on 1 April 2015, equipment rental agreement for the renting of the BH's Equipment exclusively to BH for its business operations for a term of four (4) years from 1 April 2015 with an option to extend for a period of one (1) year and a further option to extend for an additional one (1) year, for a total monthly lease charge of United States Dollar Eighty Seven Thousand Eight Hundred and Sixty (USD87,860), and

(j) DNeX Petroleum had on 7 September 2015 entered into a share subscription agreement with Ping to subscribe for 10,544,801 new ordinary shares of USD0.001 each in the share capital of Ping, which shall on closing date consistute not less than thirty percent (30%) of the entire enlarged issued capital of Ping at the cash consideration of United States Dollar Ten Million (USD10,000,000).

### 3.2 OGPC Group

The OGPC Group has not entered into any material contracts, not being contracts entered into in the ordinary course of business, within the past two (2) years preceding the date of this Circular.

## 4. MATERIAL COMMITMENTS AND CONTINGENT LIABILITIES

### 4.1 DNeX Group

#### 4.1.1 Material commitments

As at the LPD, save as disclosed below, the Board confirms that there are no other material commitments incurred or known to be incurred by DNeX Group which may have a material impact on the financial results/position of DNeX Group:-

| Capital commitments | Amount RM'Mil |
|---|---|
| Capital expenditure in respect of ICT hardware equipment and software | |
| - Approved and contracted for | 0.103 |
| Capital expenditure in respect of software | |
| - Approved and not contracted for | - |
| **Total Capital commitments** | 0.103 |

#### 4.1.2 Contingent liabilities

As at the LPD, the Board confirms that there are no contingent liabilities incurred or known to be incurred by DNeX Group, which upon becoming due or enforceable, may have a material impact on the business, results of operations and financial results/position of DNeX Group.

### 4.2 OGPC Group

#### 4.2.1 Material commitments

As at the LPD, the Directors of OGPC and OGPCOG confirm that there are no material commitments, which upon becoming enforceable may have a material effect on the financial position of the companies.

#### 4.2.2 Contingent liabilities

As at the LPD, the Directors of OGPC and OGPCOG confirm that there are no contingent liabilities incurred or known to be incurred by the OGPC Group, which upon becoming due or enforceable, may have a material impact on the business, results of operations and financial results/position of the OGPC Group.

## 5. CONSENT

AmInvestment Bank, the Principal Adviser to DNeX for the Proposals, has given and has not subsequently withdrawn its written consent to the inclusion in this Circular of its name and all references thereto in the form and context in which they appear in this Circular.

Messrs Crowe Horwath, the auditors to DNeX for the Proposed Acquisitions and Reporting Accountants to DNeX for the Proposals, has given and has not subsequently withdrawn its written consent to the inclusion in this Circular of its name, Accountants' Report on the OGPC Group, Reporting Accountants' Letter on the pro forma consolidated statement of financial position of DNeX Group as at 31 December 2014 and all references thereto in the form and context in which they appear in this Circular.

Protégé, the independent market researcher to DNeX for the Proposed Acquisitions, has given and has not subsequently withdrawn its written consent to the inclusion in this Circular of its name, Executive Summary of the Independent Market Research Report on Strategic Analysis of the Oil Field Services and Equipment Industry in Malaysia and all references thereto in the form and context in which they appear in this Circular.

## 6. DECLARATION OF CONFLICT OF INTEREST

As at the LPD, AmInvestment Bank confirms that there is no existing or potential conflict of interest in its capacity as the Principal Adviser to DNeX for the Proposals.

As at the LPD, AmInvestment Bank does not have any equity interest and has not extended any credit facilities to DNeX Group. Nevertheless, as at the LPD, AmBank, a wholly-owned subsidiary of AMMB Holdings Berhad and a related company to AmInvestment Bank, has granted total credit facilities of up to approximately RM73.98 million to DNeX Group.

Notwithstanding the above, AmInvestment Bank is of opinion that its role as the Principal Adviser to DNeX for the Proposals, does not give rise to a conflict of interest situation in view that:-

(a) AmInvestment Bank is a licensed investment bank which provides a wide range of investment banking services, inter-alia, including loan syndications, corporate finance and advisory, debt capital markets and treasury products. Hence, its appointment as the Principal Adviser to DNeX for the Proposals is in its ordinary course of business;

(b) AmBank is a licensed commercial bank which provides loans, advances and financing, deposit services, credit cards, remittance services, foreign exchange and Islamic banking services. Therefore, the credit facilities extended to the Group represent transactions entered into in its ordinary course of business;

(c) The lines of business of AmInvestment Bank and AmBank are distinct and their operations are independent of one another; and

(d) The conducts of AmInvestment Bank and AmBank are regulated strictly by the Financial Services Act, 2013 and by their own internal controls and checks.

As at the LPD, Messrs Crowe Horwath has given its confirmation that there is no existing or potential conflict of interest in its capacity as auditors to DNeX for the Proposed Acquisitions and Reporting Accountants to DNeX for the Proposals.

As at the LPD, Protégé has given its confirmation that there is no existing or potential conflict of interest in its capacity as the independent market researcher to DNeX for the Proposed Acquisitions.

## 7. HISTORICAL SHARE PRICE

The monthly highest and lowest prices of the existing Shares as traded on Bursa Securities for the past twelve (12) months are as follows:-

| | High | Low |
|---|---|---|
| | **(RM)** | **(RM)** |
| **2015** | | |
| January | 0.350 | 0.245 |
| February | 0.335 | 0.285 |
| March | 0.340 | 0.295 |
| April | 0.325 | 0.290 |
| May | 0.300 | 0.255 |
| June | 0.275 | 0.235 |
| July | 0.285 | 0.230 |
| August | 0.260 | 0.180 |
| September | 0.255 | 0.215 |
| October | 0.290 | 0.230 |
| November | 0.280 | 0.245 |
| December | 0.260 | 0.230 |

*(Source: Bloomberg)*

The last transacted price of the existing Shares on Bursa Securities on 17 June 2014, being the last Market Day prior to the Initial Announcement of the Initial Proposals on 18 June 2014 was RM0.330.

The last transacted price of the existing Shares on Bursa Securities on 4 March 2015, being the last Market Day prior to the Announcement of the Proposals on 5 March 2015 was RM0.310.

The last transacted price of the existing Shares on Bursa Securities on the LPD was RM0.235.

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## 8. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection at the Registered Office of DNeX at Tower 3, Avenue 5, The Horizon, Bangsar South, No. 8 Jalan Kerinchi, 59200 Kuala Lumpur, during normal business hours from Monday to Friday (except public holidays) following the date of this Circular up to and including the date of the forthcoming EGM:-

(a) the Memorandum and Articles of Association of DNeX, OGPC and OGPCOG;

(b) the audited consolidated financial statements of DNeX for the FYE 2013 and FYE 2014 and unaudited consolidated financial statements of DNeX for the nine (9)-months financial period ended September 2015;

(c) the audited financial statements of OGPC Group for the FYE 2013 and FYE 2014 and unaudited financial statements of OGPC Group for the FPE 2015;

(d) the Accountants' Report on the OGPC Group as set out in Appendix III of this Circular;

(e) the Reporting Accountants' Letter on the pro forma consolidated statement of financial position of DNeX Group as at 31 December 2014 as set out in Appendix IV of this Circular;

(f) the Directors' Report on the OGPC Group as set out in Appendix V of this Circular;

(g) the relevant cause papers in respect of the material litigation referred to in Section 2.2 of this Appendix X;

(h) the letters of consent referred to in Section 5 of this Appendix X;

(i) the material contracts referred to in Section 3 of this Appendix X;

(j) the draft By-Laws as set out in Appendix VIII of this Circular;

(k) the draft Deed Poll; and

(l) the IMRR.

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**DAGANG NeXCHANGE BERHAD**
(Company No. 10039-P)
(Incorporated in Malaysia under the Companies Act, 1965)

# NOTICE OF EXTRAORDINARY GENERAL MEETING

**NOTICE IS HEREBY GIVEN** that an Extraordinary General Meeting of Dagang NeXchange Berhad ("**DNeX**" or the "**Company**") will be held at Ballroom 1, 1st Floor, Sime Darby Convention Centre, 1A, Jalan Bukit Kiara 1, 60000 Kuala Lumpur on Wednesday, 27 January 2016 at 10.00 a.m., or at any adjournment thereof, for the purpose of considering and, if thought fit, passing the following resolutions, with or without modifications:-

## ORDINARY RESOLUTION 1

**PROPOSED RENOUNCEABLE RIGHTS ISSUE OF 465,146,809 NEW ORDINARY SHARES OF RM0.20 EACH IN DNeX ("SHARE(S)" OR "DNeX SHARE(S)") ("RIGHTS SHARE(S)") TOGETHER WITH 465,146,809 NEW FREE DETACHABLE WARRANTS ("WARRANT(S)") AT AN ISSUE PRICE OF RM0.21 PER RIGHTS SHARE ON THE BASIS OF THREE (3) RIGHTS SHARES TOGETHER WITH THREE (3) WARRANTS FOR EVERY FIVE (5) EXISTING DNeX SHARES HELD AS AT AN ENTITLEMENT DATE TO BE DETERMINED LATER ("ENTITLEMENT DATE") ("PROPOSED RIGHTS ISSUE")**

"**THAT** subject to the passing of Ordinary Resolutions 2 and 3 as well as all approvals and/or consents being obtained from the relevant authorities and/or other parties (where required), approval be and is hereby given to the Board of Directors of DNeX ("**Board**") to allot and issue by way of a renounceable rights issue of 465,146,809 Rights Shares together with 465,146,809 Warrants at an issue price of RM0.21 per Rights Share on the basis of three (3) Rights Shares together with three (3) Warrants for every five (5) existing DNeX Shares held by the shareholders of DNeX ("**Shareholders**") whose names appear in the Company's Record of Depositors at the close of business on the Entitlement Date to be announced by the Board;

**THAT** approval be and is hereby given to the Board to allot and issue such further Warrants ("**Additional Warrants**") as may be required or permitted to be issued pursuant to any adjustments under the terms and provisions of the deed poll constituting the Warrants to be executed by DNeX ("**Deed Poll**");

**THAT** approval be and is hereby given to the Board to allot and issue such number of new Shares credited as fully paid-up to be issued pursuant to the exercise of the Warrants and Additional Warrants (if any);

**THAT** upon allotment and issuance, the Rights Shares shall rank *pari passu* in all respects with the then existing DNeX Shares, save and except that they shall not be entitled to any dividends, rights, allotments and/or other distributions that may be declared, made or paid to the Shareholders, the entitlement date of which is prior to the date of allotment of the Rights Shares;

**THAT** upon allotment and issuance, the new Shares to be issued pursuant to the exercise of the Warrants and Additional Warrants (if any) shall rank *pari passu* in all respects with the then existing DNeX Shares, save and except that they shall not be entitled to any dividends, rights, allotments and/or other distributions that may be declared, made or paid to the Shareholders, the entitlement date of which is prior to the date of allotment of the new Shares to be issued pursuant to the exercise of the Warrants and Additional Warrants (if any);

**THAT** any Rights Shares which are not taken up or validly taken up shall be made available for excess Rights Shares applications **AND** the Board be and is hereby authorised to allocate any such excess Rights Shares in a fair and equitable manner on a basis to be determined later;

**THAT** any fractional entitlements that may arise from the Proposed Rights Issue will be disregarded **AND** the Board be and is hereby authorised to deal with any such fractional entitlements in such manner as the Board in its absolute discretion may deem fit and in the best interest of the Company;

**THAT** authority be and is hereby given to the Board to utilise the proceeds to be raised from the Proposed Rights Issue for the purposes as set out in Section 6.1 of the Circular to the Shareholders dated 12 January 2016 ("**Circular**") **AND** the Board be and is hereby authorised with full powers to vary the manner and/or purpose of utilisation of such proceeds in such manner as the Board may deem fit, necessary, expedient and/or appropriate and in the best interest of the Company, subject to the receipt of approvals from the relevant authorities (if required);

**AND THAT** the Board be and is hereby authorised to do all things and acts and/or sign and execute all documents including without limitation, the Deed Poll as the Board may deem fit, necessary, expedient and/or appropriate in order to implement, finalise and/or give effect to the Proposed Rights Issue with full powers to assent to any terms, conditions, modifications, variations and/or amendments as may be required or permitted by any relevant authorities and/or parties, as a consequence of any such requirements and/or as the Board may deem fit, necessary, expedient and/or appropriate and in the best interest of the Company."

**ORDINARY RESOLUTION 2**

**PROPOSED SPECIAL ISSUE OF 130,000,000 SHARES ("SPECIAL ISSUE SHARE(S)") TOGETHER WITH 65,000,000 WARRANTS ON THE BASIS OF ONE (1) WARRANT FOR EVERY TWO (2) SPECIAL ISSUE SHARES AT AN ISSUE PRICE OF RM0.22 PER SPECIAL ISSUE SHARE ("PROPOSED SPECIAL ISSUE")**

"**THAT** subject to the passing of Ordinary Resolutions 1 and 3 as well as all approvals and/or consents being obtained from the relevant authorities and/or other parties (where required), including but not limited to, the approval of Bursa Malaysia Securities Berhad ("**Bursa Securities**") for the listing of and quotation for the Special Issue Shares on the Main Market of Bursa Securities, approval be and is hereby given to the Board to allot and issue 130,000,000 new Shares at an issue price of RM0.22 for each Special Issue Share;

**THAT** upon allotment and issuance, the Special Issue Shares shall rank *pari passu* in all respects with the then existing DNeX Shares, save and except that they shall not be entitled to any dividends, rights, allotments and/or other distributions that may be declared, made or paid to the Shareholders, the entitlement date of which is prior to the date of allotment of the Special Issue Shares;

**AND THAT** the Board be and is hereby authorised to do all acts, deeds and things as it may deem fit, necessary, expedient and/or appropriate in order to implement the Proposed Special Issue with full power to assent to any terms, conditions, modifications, variations and/or amendments as may be required, at its discretion and/or imposed or required by the relevant authorities and/or parties and to execute, sign and to take all steps to enters into all such agreements, arrangements, undertakings, indemnities, transfers, assignments and guarantees with any party or parties and to carry out any other matters as may be required to implement, finalise and give full effect to the Proposed Special Issue."

**ORDINARY RESOLUTION 3**

**PROPOSED ACQUISITIONS OF OGPC SDN BHD ("OGPC") AND OGPC O&G SDN BHD ("OGPCOG") (COLLECTIVELY, OGPC AND OGPCOG ARE REFERRED TO AS "OGPC GROUP") FOR A TOTAL PURCHASE CONSIDERATION OF RM170 MILLION TO BE SATISFIED VIA PARTIAL CASH CONSIDERATION OF RM83 MILLION AND THE REMAINING RM87 MILLION VIA ISSUANCE OF 362,500,000 NEW DNeX SHARES ("CONSIDERATION SHARE(S)") WITH 181,250,000 WARRANTS AT AN ISSUE PRICE OF RM0.24 PER CONSIDERATION SHARE ON THE BASIS OF ONE (1) WARRANT FOR EVERY TWO (2) CONSIDERATION SHARES ISSUED ("PROPOSED ACQUISITIONS")**

"**THAT** subject to the passing of Ordinary Resolutions 1 and 2 as well as all approvals and/or consents being obtained from the relevant authorities and/or other parties (where required), approval be and is hereby given for the Company to acquire 500,000 ordinary shares of RM1.00 each in OGPC, representing the entire issued and paid-up share capital of OGPC and 520,000 ordinary shares of RM1.00 each in OGPCOG, representing the 52.0% of the issued and paid-up share capital of OGPCOG from Azman bin Karim, Abdul Manaf bin Shariff, and Khoo Kok Seng (collectively, referred to as the "**Vendors**") for a total purchase consideration of RM170 million ("**Purchase Consideration**") to be satisfied via partial cash consideration of RM83 million and the remaining RM87 million via issuance of 362,500,000 Consideration Shares with 181,250,000 Warrants at an issue price of RM0.24 for each Consideration Share, subject to the terms and conditions stipulated in the conditional share sale agreement dated 18 June 2014 and supplemental share sale agreement dated 5 March 2015 between DNeX and the Vendors in relation to the Proposed Acquisitions;

**AND THAT** the Board be and is hereby authorised to do all acts, deeds and things as it may deem fit, necessary, expedient and/or appropriate in order to implement the Proposed Acquisitions with full power to assent to any terms, conditions, modifications, variations and/or amendments as may be required, at its discretion and/or imposed or required by the relevant authorities and/or parties and to execute, sign and deliver all such documents and/or agreements with any party or parties and to take all such steps for and on behalf of the Company as it deem fit, necessary, expedient and/or appropriate in order to implement, finalise, complete and give full effect to the Proposed Acquisitions, including the issuance of the Consideration Shares as partial satisfaction of the Purchase Consideration."

**ORDINARY RESOLUTION 4**

**PROPOSED ESTABLISHMENT OF AN EMPLOYEE'S SHARE OPTION SCHEME ("ESOS") OF UP TO FIVE PERCENT (5%) OF THE ISSUED AND PAID-UP SHARE CAPITAL OF DNeX ("PROPOSED ESOS")**

"**THAT** subject to the passing of Ordinary Resolutions 1, 2 and 3 as well as all approvals and/or consents being obtained from the relevant authorities and/or other parties (where required), approval be and is hereby given to the Board to:-

(a) establish, implement and administer the Proposed ESOS for the benefit of Executive Directors and employees of the Company and its subsidiaries which are not dormant ("**DNeX Group**" or the "**Group**"), who meet the eligibility criteria to participate in the Proposed ESOS ("**Eligible Persons**"), to subscribe for new Shares at a predetermined price (hereinafter referred to as the "**ESOS Option(s)**"), in accordance with the draft by-laws governing the Proposed ESOS ("**By-Laws**"), as set out in Appendix VIII of the Circular;

(b) add, modify, alter, delete and amend the Proposed ESOS, the By-Laws and/or all rules, regulations and administration relating to the Proposed ESOS and/or the administration thereof, from time to time as may be required or permitted or deemed necessary by the authorities or the Board or the committee appointed and authorised by the Board to administer the Proposed ESOS, provided that such additions, modifications, alterations, deletions and/or amendments are effected and permitted in accordance with the provisions of the By-Laws;

(c) offer and grant ESOS Options under the Proposed ESOS and to allot and issue from time to time such number of new Shares as may be required to be issued pursuant to the exercise of the ESOS Options (including such additional ESOS Options issued pursuant to the By-Laws), provided that the total number of new Shares to be allotted and issued under the Proposed ESOS shall not exceed five percent (5%) of the issued and paid-up share capital (excluding treasury shares, if any) of the Company at any point of time throughout the duration of the Proposed ESOS and that such new Shares shall, upon allotment and issuance, rank *pari passu* in all respects with the then existing Shares, save and except that they shall not be entitled to any dividends, rights, allotments and/or other distributions that may be declared, made or paid to the Shareholders, the entitlement date of which is prior to the date of which the new Shares are credited into the central depository system accounts of the Eligible Persons who have accepted the offers of ESOS Options in accordance with the By-Laws; and

(d) to do all things necessary and make the necessary application at the appropriate time or times to Bursa Securities for the listing of and quotation for the new Shares which may from time to time be allotted and issued pursuant to the Proposed ESOS;

**THAT** the Board be and is hereby authorised to do all things and acts and/or sign and execute all documents as the Board may deem fit, necessary, expedient and/or appropriate in order to implement, finalise and/or give full effect to the Proposed ESOS with full powers to assent to any terms, conditions, modifications, variations and/or amendments as may be required or permitted by any relevant authorities and/or parties, as a consequence of any such requirement and/or as the Board may deem fit, necessary, expedient and/or appropriate and in the best interest of the Company;

**AND THAT** the proposed By-Laws be and is hereby approved."

**ORDINARY RESOLUTION 5**

**PROPOSED GRANT OF ESOS OPTIONS TO DATUK SAMSUL BIN HUSIN, THE EXECUTIVE DEPUTY CHAIRMAN OF THE COMPANY**

"**THAT** subject to and conditional upon the passing of Ordinary Resolution 4 taking effect as well as approvals and/or consents being obtained from the relevant authorities and/or parties (where required), approval be and is hereby given to the Board to offer and grant to Datuk Samsul bin Husin, being the Executive Deputy Chairman of the Company, options to subscribe for such number of ESOS Options to be issued (as adjusted or modified from time to time pursuant to the By-Laws) pursuant to the Proposed ESOS, provided that the allocation to any Eligible Persons who, either singly or collectively through Persons Connected (as defined in the Main Market Listing Requirements of Bursa Securities) with him/her, holds twenty percent (20%) or more in the issued and paid-up share capital (excluding treasury shares, if any) of the Company, does not exceed ten percent (10%) of the total number of DNeX Shares to be issued under the Proposed ESOS, and subject always to such terms and conditions of the Proposed ESOS as may, from time to time, be modified, varied and/or amended in accordance with the provisions of the By-Laws;

**AND THAT** approval be and is hereby given to the Board to allot and issue from time to time such number of ESOS Options credited as fully paid-up to Datuk Samsul bin Husin pursuant to the exercise of such options."

**ORDINARY RESOLUTION 6**

**PROPOSED GRANT OF ESOS OPTIONS TO ZAINAL 'ABIDIN BIN ABD JALIL, THE GROUP MANAGING DIRECTOR OF THE COMPANY**

"**THAT** subject to and conditional upon the passing of Ordinary Resolution 4 taking effect as well as approvals and/or consents being obtained from the relevant authorities and/or parties (where required), approval be and is hereby given to the Board to offer and grant to Zainal 'Abidin bin Abd Jalil, being the Group Managing Director of the Company, options to subscribe for such number of ESOS Options to be issued (as adjusted or modified from time to time pursuant to the By-Laws) pursuant to the Proposed ESOS, provided that the allocation to any Eligible Persons who, either singly or collectively through Persons Connected with him/her, holds twenty percent (20%) or more in the issued and paid-up share capital (excluding treasury shares, if any) of the Company, does not exceed ten percent (10%) of the total number of DNeX Shares to be issued under the Proposed ESOS, and subject always to such terms and conditions of the Proposed ESOS as may, from time to time, be modified, varied and/or amended in accordance with the provisions of the By-Laws;

**AND THAT** approval be and is hereby given to the Board to allot and issue from time to time such number of ESOS Options credited as fully paid-up to Zainal 'Abidin bin Abd Jalil pursuant to the exercise of such options."

**ORDINARY RESOLUTION 7**

**PROPOSED GRANT OF ESOS OPTIONS TO DATO' WONG KAM YIN, AN EXECUTIVE DIRECTOR OF THE COMPANY**

"**THAT** subject to and conditional upon the passing of Ordinary Resolution 4 taking effect as well as approvals and/or consents being obtained from the relevant authorities and/or parties (where required), approval be and is hereby given to the Board to offer and grant to Dato' Wong Kam Yin, being an Executive Director of the Company, options to subscribe for such number of ESOS Options to be issued (as adjusted or modified from time to time pursuant to the By-Laws) pursuant to the Proposed ESOS, provided that the allocation to any Eligible Persons who, either singly or collectively through Persons Connected with him/her, holds twenty percent (20%) or more in the issued and paid-up share capital (excluding treasury shares, if any) of the Company, does not exceed ten percent (10%) of the total number of DNeX Shares to be issued under the Proposed ESOS, and subject always to such terms and conditions of the Proposed ESOS as may, from time to time, be modified, varied and/or amended in accordance with the provisions of the By-Laws;

**AND THAT** approval be and is hereby given to the Board to allot and issue from time to time such number of ESOS Options credited as fully paid-up to Dato' Wong Kam Yin pursuant to the exercise of such options."

By Order of the Board

KEH CHING TYNG (MAICSA 7050134)
Company Secretary

Kuala Lumpur
12 January 2016

*Notes:-*

1. *For the purpose of determining a member who shall be entitled to attend this meeting, the Company shall be requesting Bursa Malaysia Depository Sdn Bhd in accordance with Article 55(b) of the Company's Articles of Association and Section 34(1) of the Securities Industry (Central Depositories) Act 1991, to issue a General Meeting Record of Depositors as at 20 January 2016. Only a depositor whose name appears on the Record of Depositors as at 20 January 2016 shall be entitled to attend the said meeting or appoint proxies to attend and/or vote on his/her behalf.*
2. *A member entitled to attend and vote at the meeting is entitled to appoint proxy/proxies to attend and vote in his/her stead. A proxy may but need not be a member of the Company and the provisions of Section 149(1)(b) of the Companies Act 1965 shall not apply to the Company.*
3. *In the case of corporate member, the instrument appointing a proxy ("Form of Proxy") shall be (a) under its Common Seal or (b) under the hand of duly authorised officer or attorney and in the case of (b), be supported by a certified true copy of the resolution appointing such officer or certified true copy of the power of attorney.*
4. *A member of the Company holding 1,000 shares or less in the Company shall be entitled to appoint one (1) proxy to attend and vote at the same meeting. A member holding more than 1,000 shares in the Company shall be entitled to appoint a maximum of two (2) proxies to attend and vote at the same meeting and such appointment shall be invalid unless the member specifies the proportion of his/her shareholding to be represented by each proxy.*
5. *Where a member is an authorised nominee, as defined under the Securities Industry (Central Depositories) Act 1991, it may appoint at least one (1) proxy but not more than two (2) proxies in respect of each securities account it holds which is credited with ordinary shares of the Company. The appointment of two (2) proxies in respect of any particular securities account shall be invalid unless the authorised nominee specifies the proportion of its shareholding to be represented by each proxy.*

6. *Where a member is an exempt authorised nominee (EAN) as defined under the Securities Industry (Central Depositories) Act 1991 which holds ordinary shares in the Company for multiple beneficial owners in one securities account (omnibus account), there is no limit to the number of proxies which the EAN may appoint in respect of each omnibus account it holds. EAN is advised to list down the name of proxies and the particulars of their NRIC No. (both new and old) and attach it to the Form of Proxy.*
7. *Any alteration to the Form of Proxy must be initialised. The Form of Proxy duly completed must be deposited at the office of the Share Registrar, Mega Corporate Services Sdn Bhd at Level 15-2, Bangunan Faber Imperial Court, Jalan Sultan Ismail, 50250 Kuala Lumpur not less than twenty-four (24) hours before the time appointed for holding the meeting or at any adjournment thereof.*

# FORM OF PROXY

DNeX

**DAGANG NeXCHANGE BERHAD**
**(Company No. 10039-P)**
(Incorporated in Malaysia)

| | |
|---|---|
| No. of Shares Held | |
| CDS Account No. | |
| Telephone No. | |

*I/We ________________________________________________
(Full name as per NRIC/Certificate of Incorporation in CAPITAL letters)

Company No./NRIC No. (new) ______________________ (old) ______________________

of ________________________________________________
(Full Address)

________________________________________________
(Full Address)

being a member of **DAGANG NeXCHANGE BERHAD** hereby appoint ______________________

______________________ NRIC No. (new) ______________________
(Full name as per NRIC in CAPITAL letters)

(old) ______________________ or failing *him/her ______________________
(Full name as per NRIC in CAPITAL letters)

NRIC No. (new) ______________________ (old) ______________________

or failing *him/her, the Chairman of the Meeting as *my/our proxy to vote for *me/us on *my/our behalf at the Extraordinary General Meeting (EGM) of the Company to be held at Ballroom 1, 1st Floor, Sime Darby Convention Centre, 1A, Jalan Bukit Kiara 1, 60000 Kuala Lumpur on Wednesday, 27 January 2016 at 10.00 a.m. and at any adjournment thereof. *My/our proxy is to vote as indicated below:

| RESOLUTIONS | FOR | AGAINST |
|---|---|---|
| Ordinary Resolution 1 – Proposed Rights Issue | | |
| Ordinary Resolution 2 – Proposed Special Issue | | |
| Ordinary Resolution 3 – Proposed Acquisitions | | |
| Ordinary Resolution 4 – Proposed ESOS | | |
| Ordinary Resolution 5 – Proposed Grant of ESOS Options to Datuk Samsul bin Husin, the Executive Deputy Chairman of the Company | | |
| Ordinary Resolution 6 – Proposed Grant of ESOS Options to Zainal 'Abidin bin Abd Jalil, the Group Managing Director of the Company | | |
| Ordinary Resolution 7 – Proposed Grant of ESOS Options to Dato' Wong Kam Yin, an Executive Director of the Company | | |

*(Please indicate with an "X" in the appropriate boxes how you wish your vote to be cast. If you do not indicate how you wish your proxy to vote on any resolution, the proxy shall vote as he/she thinks fit, or at his/her discretion, abstain from voting.)*

Dated this .......... day of ......................... 2016

______________________
Signature(s)/Common Seal of Member(s)

| For appointment of two proxies, percentage of shareholdings to be represented by the proxies: | | |
|---|---|---|
| | **No. of shares** | **Percentage** |
| Proxy 1 | | |
| Proxy 2 | | |
| **Total** | | **100%** |

*Notes:-*

1. *Applicable to shares held through a nominee account.*
2. *A member entitled to attend and vote at the meeting is entitled to appoint proxy/proxies to attend and vote in his/her stead.*
3. *A proxy may but need not be a member of the Company and the provisions of Section 149(1)(b) of the Companies Act 1965 shall not apply to the Company.*
4. *In the case of corporate member, the instrument appointing a proxy ("Form of Proxy") shall be either (a) under its Common Seal or (b) under the hand of duly authorised officer or attorney and in the case of (b), be supported by a certified true copy of the resolution appointing such officer or certified true copy of the power of attorney.*
5. *A member of the Company holding 1,000 shares or less in the Company shall be entitled to appoint one (1) proxy to attend and vote at the same meeting. A member holding more than 1,000 shares in the Company shall be entitled to appoint a maximum of two (2) proxies to attend and vote at the same meeting and such appointment shall be invalid unless the member specifies the proportion of his/her shareholding to be represented by each proxy.*
6. *Where a member is an authorised nominee, as defined under the Securities Industry (Central Depositories) Act 1991, it may appoint at least one (1) proxy but not more than two (2) proxies in respect of each securities account it holds which is credited with ordinary shares of the Company. The appointment of two (2) proxies in respect of any particular securities account shall be invalid unless the authorised nominee specifies the proportion of its shareholding to be represented by each proxy.*
7. *Where a member is an exempt authorised nominee (EAN) as defined under the Securities Industry (Central Depositories) Act 1991 which holds ordinary shares in the Company for multiple beneficial owners in one securities account (omnibus account), there is no limit to the number of proxies which the EAN may appoint in respect of each omnibus account it holds. EAN is advised to list down the name of proxies and the particulars of their NRIC No. (both new and old) and attach it to this Form of Proxy.*
8. *Any alteration to this Form of Proxy must be initialised. The Form of Proxy duly completed must be deposited at the office of the Share Registrar, Mega Corporate Services Sdn Bhd at Level 15-2, Bangunan Faber Imperial Court, Jalan Sultan Ismail, 50250 Kuala Lumpur, not less than 24 hours before the time fixed for holding the meeting.*
9. *For the purpose of determining a member who shall be entitled to attend this meeting, the Company shall be requesting Bursa Malaysia Depository Sdn Bhd in accordance with Article 55(b) of the Company's Articles of Association and Section 34(1) of the Securities Industry (Central Depositories) Act 1991, to issue a General Meeting Record of Depositors as at 20 January 2016. Only a depositor whose name appears on the Record of Depositors as at 20 January 2016 shall be entitled to attend the said meeting or appoint proxies to attend and/or vote on his/her behalf.*

Fold this flap for sealing

Then fold here

AFFIX
STAMP

**Mega Corporate Services Sdn Bhd**
Level 15-2, Bangunan Faber Imperial Court,
Jalan Sultan Ismail,
50250 Kuala Lumpur.

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